STANFORD BUSINESS FEBRUARY 2005

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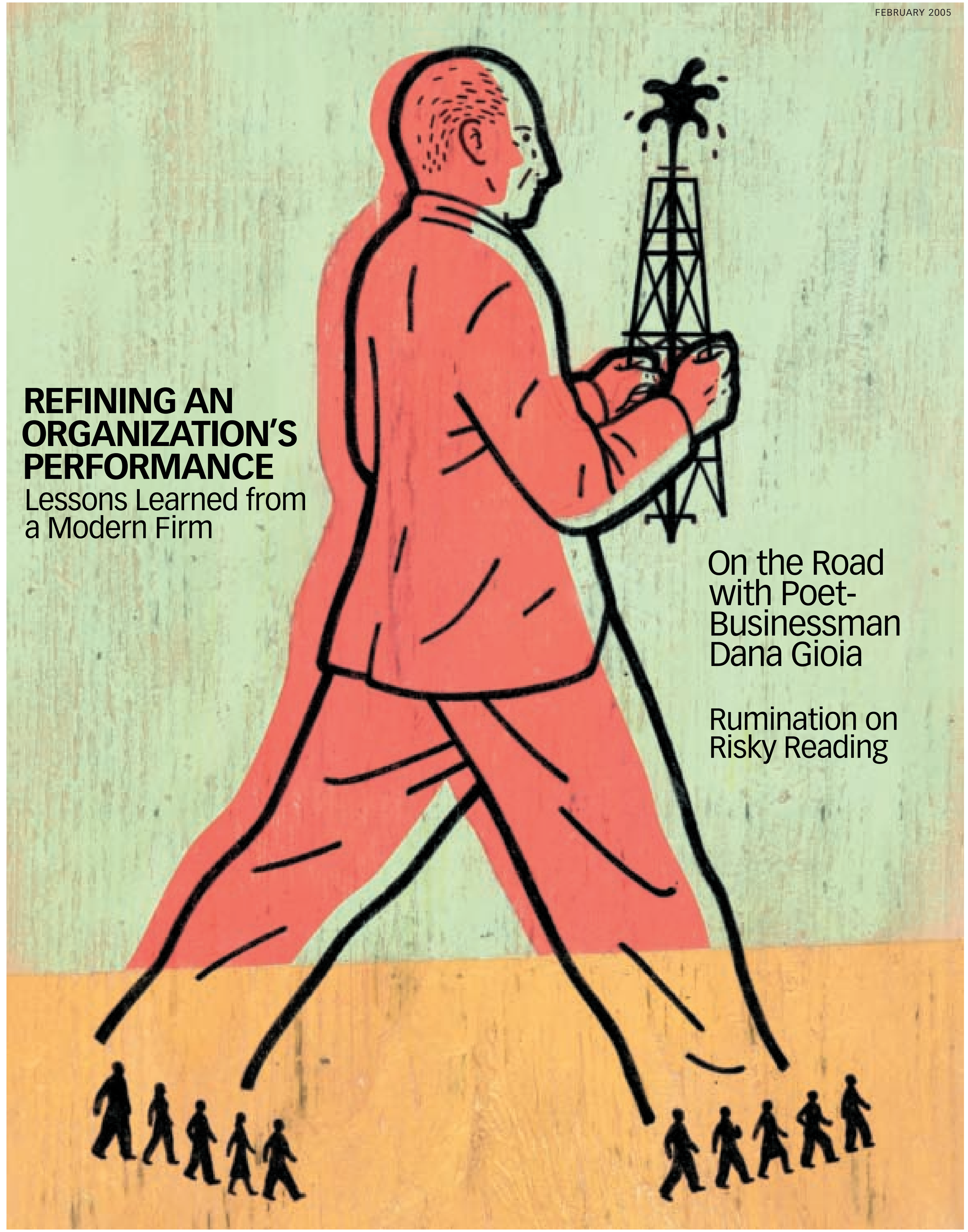

REFINING AN ORGANIZATION'S PERFORMANCE
Lessons Learned from a Modern Firm

On the Road with Poet-Businessman Dana Gioia

Rumination on Risky Reading

Growing Hope from Darkness

MANY IN OUR COMMUNITY, including some of you who read this magazine, I presume, will have lost family, friends, or business associates in the earthquake and tsunami that struck Southern Asia on December 26. As Stanford President John Hennessy said at a campus vigil in early January, this University has become a neighborhood in a global village, and so we no longer can expect a disaster halfway around the globe to feel remote. As winter classes began, several hundred of us gathered with heavy hearts in Memorial Church to express unity and sympathy with the many survivors whose lives have been upended by of one of greatest natural disasters in history.

As I write this, Business School students especially are grieving over the particular loss of second-year MBA student James Hsu. A native of California who was interested in using his skills beyond its borders, James was among about two dozen GSB students who participated in a study trip to Singapore and Thailand over the December class break. With a handful of classmates, he stayed on to vacation on Thailand's Koh Phi Phi island, and he was at a resort on the beach when the tsunami struck there. After days of searches for him by a classmate and his family, James is presumed to have perished. Classmate Laura Wales was seriously injured by the powerful water and remained hospitalized in Bangkok as students, faculty, and staff returned to campus for classes.

STEVE CASTILLO

Second-year student Lorri Elder, who also had participated in the study trip, noted the difficulty she and others were having accepting the death of their classmate. "James was in his mid-twenties; he was about to take on the world with his entrepreneurial ideas," she told the gathered mourners. She compared him to Leland Stanford Jr., who died of typhoid at age 15, and compared those of us left behind to Leland's parents, who, in their grief, built a university that would "make incredible things possible for a myriad of young people."

"If anyone can band together in a spirit of generosity after a tragedy like this, it is the Stanford community, it is our Business School community," she said. "We must honor James by coming together, remembering the goodness and taking this darkness and growing from it something hopeful and greater than ourselves."

One way to begin this process is to contribute in James Hsu's memory to the Red Cross relief efforts through a fundraising effort organized by the MBA Class of 2005. More information on how to contribute is available on the *Stanford Business* website at *www.gsb.stanford.edu/news/bmag.*

There most assuredly will be other direct and indirect ways you, members of this neighborhood, will join the rebuilding. As Hennessy phrased it at the vigil, "Many of us belong to faiths that call us to be people of action, and that has always been the Stanford way."

Kathleen O'Toole

EDITOR

STANFORD BUSINESS

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

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PREPRESS
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PRINTING
Graphic Center, Sacramento

STANFORD BUSINESS Published quarterly (February, May, August, November) by the Stanford University Graduate School of Business (ISSN 1094-5423). Printed in the United States. Periodicals postage paid at Palo Alto, CA.

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

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

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

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MAGAZINE ONLINE VERSION
www.gsb.stanford.edu/news/bmag

BY DEAN ROBERT L. JOSS

Inside the Classroom

Dean Joss poses with GSB students for the rankings issue of BusinessWeek.

STEVE LABADESSA

It's a Friday afternoon and the end of another jam-packed week. I am in the classroom with Jim Ellis who coteaches *Managing Growing Enterprises* with me. This is an elective. Pioneered as a seminar in 1993 by Irv Grousbeck, our outstanding MBA Class of 1980 Consulting Professor of Management, the course has become so popular that we expanded it last year from three to four sections, and this year we added a fifth section. I have enjoyed teaching one of those with Ellis, MBA '93, who cofounded Asurion, a wireless services company, and is now a lecturer at the School. Students read and engage in group study on a score of cases, but we don't neatly dissect the cases and hand them answers. We try to get them to own as many of the issues as possible—for them to experience the general management role personally.

We role-play. The wooden chairs squeak as students shift their weight and gesture with their arms and hands as they try to demonstrate how they would manage in a tight spot. There are no slam-dunk answers here. "They engage with it," says Ellis. "There's a hunger for it. They don't get it right the first time."

We talk about the founder of a company who had to seek the resignation of two of his board members. They were people who had believed in him early, invested personal funds, and brought important people to the startup. But they were distracted by issues at their own firms, skipped meetings, and were no longer measuring up as directors on a board that needed badly to be reconstituted. How would you get them to leave? What would you say? we ask. Especially if one director is a friend of the family?

One student, trying to be diplomatic, suggests to the board member that he resign, but Ellis, playing the director, resists. Another student tries to fire the director, who happens to be an attorney, outright. More resistance. A third suggests offering more shares to get him off the board. I ask: How will that make the other board members feel? Near the end of a 90-minute exercise, our guest, venture capitalist Geoff Yang, MBA '85, gives his seasoned, practical advice about how venture-backed CEOs should build and manage a board. Then at the start of the next class session, Ellis and I offer our own summary of the key learning from this case in chief executive–board relations.

Every class session raises tough situations that managers face at one time or another. They are circumstances for which books don't prepare you completely. What would you say if you had to fire someone? What would you do if your manager, the boss's son, had mishandled a personnel situation? What do you do if an employee walks into your office with a sexual harassment complaint? In one case, we cover an ethical situation in which a beer company manager has to confront some sleazy practices around concession kickbacks at ballparks.

At Stanford, we expose students to important basic knowledge about economics, organizational behavior, accounting, and other key business functions in our core curriculum. We push people to *think* in the required courses and to examine what both the collected and latest research tells us—about what constitutes a good strategy or what we know is likely to happen when you criticize people, for example.

There is an important step beyond intellectualizing. It's learning by doing.

Electives vary, of course. Some focus more deeply on a narrow area of knowledge. Others center on project-based learning; in *Evaluating Entrepreneurial Opportunities,* for example, students create business plans. Others, like the one I've described here, force students to think about what they would do and then enact a specific situation. There is an important step beyond intellectualizing. It's learning by doing. Students tell us these are among our most challenging offerings in the context of the larger program. We continue to keep our curriculum flexible and varied, giving students fundamental knowledge and analytical skills as well as the opportunity to apply their core learning to deal with real situations. ■

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Spreadsheet

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

ROBERT HOLMGREN

Stanford Faculty Cowboy

HORSES ARE AS MUCH A PART of Professor George Parker's life as the Red Barn is a part of Stanford's history. Parker was about 5 years old when he started riding, and he has owned horses most of his adult life. The Red Barn predates the University and was built to board Leland Stanford Sr.'s many trotting horses. So it made sense to ask the Business School's Parker to head the advisory council when management of the Victorian-era structure transferred from a concessionaire to the University's Athletics Department. Now, with funding from a donor, the barn area is being renovated into a premier facility to include a new show arena, clubhouse, paddocks, and better training facilities, Parker said. Those boarding their horses at the Red Barn will include students, members of the University's equestrian club, surrounding community members, and faculty and staff. In addition, university-owned animals will be available to students for lessons and intercollegiate competition. Parker has been a valuable resource in the transition, says barn manager Vanessa Bartsch. "It's great to have someone who knows his horses as well as has a keen business sense."

Record Class Gift Aids Global Center

CLASS GIFTS are getting larger, and participation continues to be high. This year, the MBA Class of 2004 pledged $336,780 to the Business School's new Center for Global Business and the Economy, to be paid over the next four years. It is the largest dollar amount ever raised by a graduating class. A full 78 percent of the class pledged an average of $1,149.

Their gift highlights another trend in class giving. In the past few years MBA classes have chosen to support programs rather than give physical objects. In 2002, a record 91 percent of the class contributed to the second-year seminar series and international student fellowships.

The MBA Class of 2003, previous top giver with a total pledge of $334,332, chose to support the Career Management Center in building a new database for independent job searches.

More Than Learning to Carry the Bag

BUDDING ENTREPRENEURS will tell you that when they start a new venture, they expect one of their first hires to be a salesperson. Yet until recently the GSB had no course that taught them how to create and manage a growing company's sales capability.

This quarter marks the second time the Business School has offered *Building and Managing Professional Sales Organizations,* a course developed and introduced in 2003–2004 by marketing professor James Lattin and Mark Leslie, the founding CEO of Veritas Software.

"We've organized the class around the life cycle of an organization," says Lattin, "so that we begin with a small company and discuss issues as they come up—how do you get started, how do you get traction, how do you grow and expand? And as you get larger and more complex organizations and increasingly mature industries, what is the impact on sales?"

Ten cases were written specifically for the class, including one about Veritas and its merger of two sales forces, discussed in class with the executive who directed the merger. Other topics embrace building a sales culture, forecasting sales, managing multiple direct channels, and going international.

One topic never taught is how to be a salesperson. Well, almost never. Students are required to complete a "sales audit" of a company, which involves finding a sales organization and looking into how it addresses one of the issues discussed in class. "The challenge is that some of the students are reluctant to cold-call organizations," Lattin reports, "and Mark is ruthless on this. He says, 'You want to get a feel for what sales is like? Go call somebody up!'"

LARRY JOST

New Online Resource Boosts Job Search

MENTION THE MBA Career Management Center and you think on-campus recruiting. True, at least once in their Business School years, most MBA students dash into the dressing room to don suits and dress shoes to wow visiting recruiters. But only 40 percent ultimately take jobs with the companies that recruit on campus. The remaining students, looking for a smaller firm or a specific niche, enlist the career center's help in what is called an independent, tailored job search.

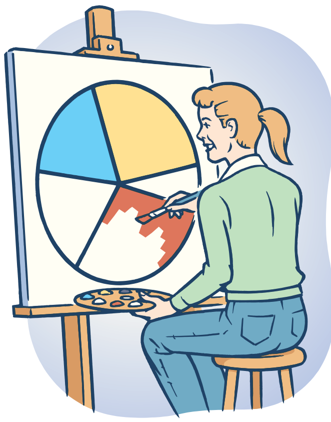
Until recently the search has been quite independent. When Marie Mookini, associate director for corporate outreach, arrived two years ago, the chief tool for independent searches was a Rolodex, she says. But in the past two years, thanks to the financial contribution of the MBA Class of 2003, the technical assistance of the School's information technology folks, and the unstinting efforts of the career center staff, the old Rolodex is at last ready to meet the new century. Or at least depart the old one with grace.

By fall quarter 2004, the new, digitized CareerNet online database held records for 1,800 companies and listed 3,200 contacts among them. Using the School's intranet, students access companies of interest, as well as names of contacts willing to advise and support them in their respective firm's recruiting process. Work is now under way to bring information into the site from other sources, like the alumni database and student facebook. Mookini is adding information culled from her travels to companies far and wide.

"This enhanced version of CareerNet will highlight qualitative information about the firm and its people—information gained from conversations and insights provided by our students who worked for these firms," Mookini says. "It's an additional, and proprietary, job search resource for students, connecting outstanding companies with outstanding students—which is, incidentally, one of the critical goals of the MBA Career Management Center."

Undergrads Brake for Summer Biz School

HER NOTES WERE covered with question marks but not because she didn't understand the material. GSB Summer Institute student Ashleigh Patterson was marking questions to take back to her colleagues at FTI International in Toronto, the alternative fuel company where she works in business development. "Now that I'm back, I ask them, 'Do we do this at FTI?' If not, I suggest we think about it."



LARRY JOST

FTI welcomed her suggestions. The company had sent Patterson to Stanford last summer, where she was one of 56 students in the School's inaugural program for college undergraduates and recent grads. Students lived on campus for four weeks, immersed in fundamentals of finance, marketing, organizational behavior, and other disciplines traditionally fleshed out in the MBA Program. Like Patterson, who was a premed graduate of Queens University in Ontario, participants were liberal arts and sciences majors; business majors were not invited.

Her classmate Penn DiJulio had never taken a course in business, not even in economics. A philosophy graduate of the University of Washington, he interned for Graniterock in Watsonville, Calif., for two summers, then joined its human resources area full time in 2002. Graniterock President and CEO Bruce Woolpert, MBA '76, suggested the Stanford program.

"The Summer Institute was extremely valuable for someone in my position," DiJulio said. "Although I'd been working at Graniterock, it helped me to better understand the processes behind our practices."

Said Woolpert: "I would recommend businesses support the Summer Institute by sponsoring employees, and that undergraduates consider it if they want to answer questions about a career in business."

The School's second Summer Institute, directed by professors Edward Lazear and Kathryn Shaw, will meet from June 19 to July 15. Final date for applications is March 20. The program is limited to nonbusiness majors with at least three years of undergraduate studies. For more information, call 650.723.8124 or go to *www.gsb.stanford.edu/si.*

Class Chroniclers Cheer Comma Queen

A merry band of class secretaries gather on reunion weekend to say their good-byes to Class Notes Editor Gale Sperry. After holding the scribes to their deadlines for 21 years, Sperry is looking forward to some time of her own. Niel Davidson, MBA '63, bids a fond farewell at the party in Sperry's honor.

ANNE KNUDSEN

Loan Forgiveness Program at Work

YOU DON'T NEED AN MBA to know that not-for-profit salaries are unlikely to make a dent in paying off hefty student loans. For many years, public management students have had to choose between smaller pay packages or forsaking, at least for a time, the field they had prepared for. But since 1988, the GSB Loan Forgiveness Program has helped 64 individuals reduce a portion of their Business School debt as they pursue the careers they love.

NEW VENTURES

Wow! Was that Rod Stewart spied coming ashore at St. Tropez, his reading glasses suspended from a snazzy silver chain around his neck? It was indeed. The aging rocker is one of a number of celebrities who have taken to securing their specs by means of La Loop, the chic but utilitarian necklace patented and sold by **Debbie Zoullas,** MBA '78, through her company **CREATIVE SOLUTIONS.** La Loop is made with freshwater pearls, coral, leather, shells, you name it, and can be purchased at prices that range from $70 to over $200 in upscale stores or online at *www.laloop.com.* Next up: La Leash.

If you can't carry it around your neck, you can always go back to a handbag. The initial offering of **MARKA,** a new line of lightweight, stain-resistant canvas bags by **Molly Nelson** and **Katherine Walker,** both MBA '02, features three models for "women who work, travel, and lunch." Each is fitted for a laptop computer. Two have removable computer holders with shoulder straps, the easier to pass through security. There are pockets for cell phones, power adapters, cords, and makeup, and room enough inside to take it on an overnight. Bags start at $365 at selected stores and online at *www.markaonline.com.*

Couch potatoes everywhere, take note: **Randy Hetrick,** MBA '03, is leaving you with no excuse. His company, **TRAVELFIT,** markets compact, lightweight, non-elastic fitness gear that works anywhere there's a door—or even a tree. The all-purpose Travel-X includes instructions for hundreds of strength, flexibility, and cardio-based routines. One specialty product is the Talon Trainer for rock climbers, inspired by Hetrick's pre-Business School career with the Navy SEALs. You'll find TravelFit at *www.travelfit.com.*

From Brazil, **John Callon,** MBA '96, is offering global videoconferencing up in the clouds of the Internet. For a monthly subscription fee, **CLOUDMEETING** offers multimedia communications with from one to 200 people anywhere in the world there is Internet access. The only special equipment needed is a headset and a webcam. More information is available in English, Spanish, or Portuguese at *cloudmeeting.com.*

Spreadsheet

FOR THE RECORD

Placement Report: MBA Class of 2004

Industry	Percentage of Class	Median Base Salary	Median Total Compensation
SERVICE (79 PERCENT)			
Management Consulting	18	$105,000	$140,000
E-Commerce/Internet	8	$ 92,500	$125,500
Private Equity	8	$125,000	$230,000
Investment Banking/Brokerage	6	$ 85,000	$142,500
Hedge Funds	5	$100,000	$197,500
Investment Management	5	$100,000	$136,375
Entertainment/Media	4	$101,250	$131,250
Financial Services/Diversified	4	$ 90,000	$140,000
Nonprofit/Government	4	$ 80,000	$ 93,200
Real Estate	4	$ 95,000	$135,000
Venture Capital	4	$122,000	$168,500
Consumer Services	3	$ 80,000	$125,000
Health/Human Services	2	$100,500	$134,000
Other	4	$ 92,500	$121,000
MANUFACTURING (21 PERCENT)			
Consumer Products	6	$ 85,000	$108,200
Biotech/Pharm/Medical	4	$ 88,752	$129,252
Computers (Software)	4	$100,000	$132,250
Computers (Hardware)	2	$ 97,500	$276,500
Networking/Telecom Products	2	$ 92,000	$117,000
Other	3	$ 88,752	$129,252

Top functions
Consultant: 18 percent
Brand/Marketing Manager: 14 percent
Business Dev./Strategic Planner, Investment Manager, and Private Equity Analyst: 9 percent each

Base salary
Median: $96,875
Range: $35,000-$223,000

Total compensation
Median: $136,785
Range: $35,000-$340,000

Source: *Stanford Business School Career Management Center. For further details: www.gsb.stanford.edu/cmc*

"I was pretty worried when I sat in the financial aid presentation and they showed how much money I would need to earn to be able to pay off my loans. I'll never make that much money in my field!" recalls Kathy Sarlson, MBA '95, an endowment officer for the Jewish Federation of Philadelphia.

Sarlson has been in the loan forgiveness program for nine years and will finally pay off her GSB debt in 2005. "The loan forgiveness program has truly enabled me to remain in the nonprofit sector all these years," she says.

Sarlson is one of 23 current recipients who receive average annual awards of about $4,000. Business School graduates may apply for the program at any point in their career, as long as they are currently in the public or nonprofit sector and still paying off their GSB loans. To learn more about the program and its requirements, visit *www.gsb.stanford.edu/finaid*

Alumni Association Applauds Volunteers

TWO ACTIVE STUDENT mentors and chapter leaders were honored with the latest John W. Gardner Volunteer Leadership Awards of the Stanford Business School Alumni Association. Dean Robert Joss presented the awards to Woody Howse, MBA '70, and Debbie Hall, MBA '81, during October's Alumni Week-end program.

Howse has been an officer of the Puget Sound alumni chapter and has served as an advisor to current students through the mentor program. He also served six years on the Business School Alumni Association board, including a term as president. Hall has been active in the mentor program since its inception and has served as chapter president of the San Francisco Peninsula chapter.

The award is named for the late John Gardner, an author and scholar who advocated volunteerism and taught at the Business School.

Pond Leaves Behind Decades of Service

STANFORD BUSINESS SCHOOL lost one of its most faithful alumni and able administrators when Samuel "Pete" Pond, MBA '39, died of the effects of a stroke at Stanford Hospital last October. He was 90.

Pond served in nearly every top administrative post in the School beginning in 1961, when his boyhood friend Dean Ernest C. Arbuckle asked him to help out. In 1968 he was appointed acting dean after Arbuckle retired. He held that post until late 1969 when Arjay Miller arrived. Pond himself retired in 1981.

In his 23 years of "retirement," Pond bought and sold a company, became an active trustee of his college prep school in Ojai, Calif., and traveled extensively. Pond had a keen sense of place. When he had three brushes with serious illness he managed to locate them in Fez, Morocco; Quito, Ecuador; and Paris, France. He also had a sparkling sense of humor. A veteran of World War II, he loved to tell acquaintances how he missed the boat—Jack Kennedy's *PT-109,* that is—when he skippered *PT-108* in the waning days of the war.

Pond was a native Californian whose family had arrived in the state in the early 1850s. His grandfather Edward Bates Pond was mayor of San Francisco and later ran for governor. The earlier Pond lost the election to Leland Stanford.

Home Depot Retools to Stay on Top


ANNE KNUDSEN

HOME DEPOT HAS SOARED since Bob Nardelli took over as CEO in late 2000. After 20 years of success, the firm was at the top of its industry but had grown complacent. There was no mid-range forecasting process, technology systems were outdated, and merchandising techniques and the product line seemed stale, Nardelli told a Business School audience in October.

Today a new Home Depot store opens every 48 hours. The company's 1,813 stores generate $7 million worth of sales every hour. In the past three years, Home Depot has grown its top line by $19 billion.

To accomplish this, he introduced a new system called SOAR, which stands for strategic operating and resource planning and is expressed in a large flow chart prominently displayed at strategy sessions.

SOAR has brought the company a more market-focused, consumer-centric view. Nardelli is modernizing the stores and changing the shopping experience to meet new customer tastes. He introduced Ralph Lauren paints and other upscale brands, installed 800 self-checkout counters for faster transactions, and invested in 90,000 wireless bar code readers to make checkout easier for customers with bulky merchandise.

"We have a template for change management, where we have to focus on the things we're doing and see if they are relevant to the strategy. If not, we're probably wasting our time," he said. "The landscape is strewn with retailers who got locked into a paradigm and couldn't change."

Brand Strategy: Stick with It

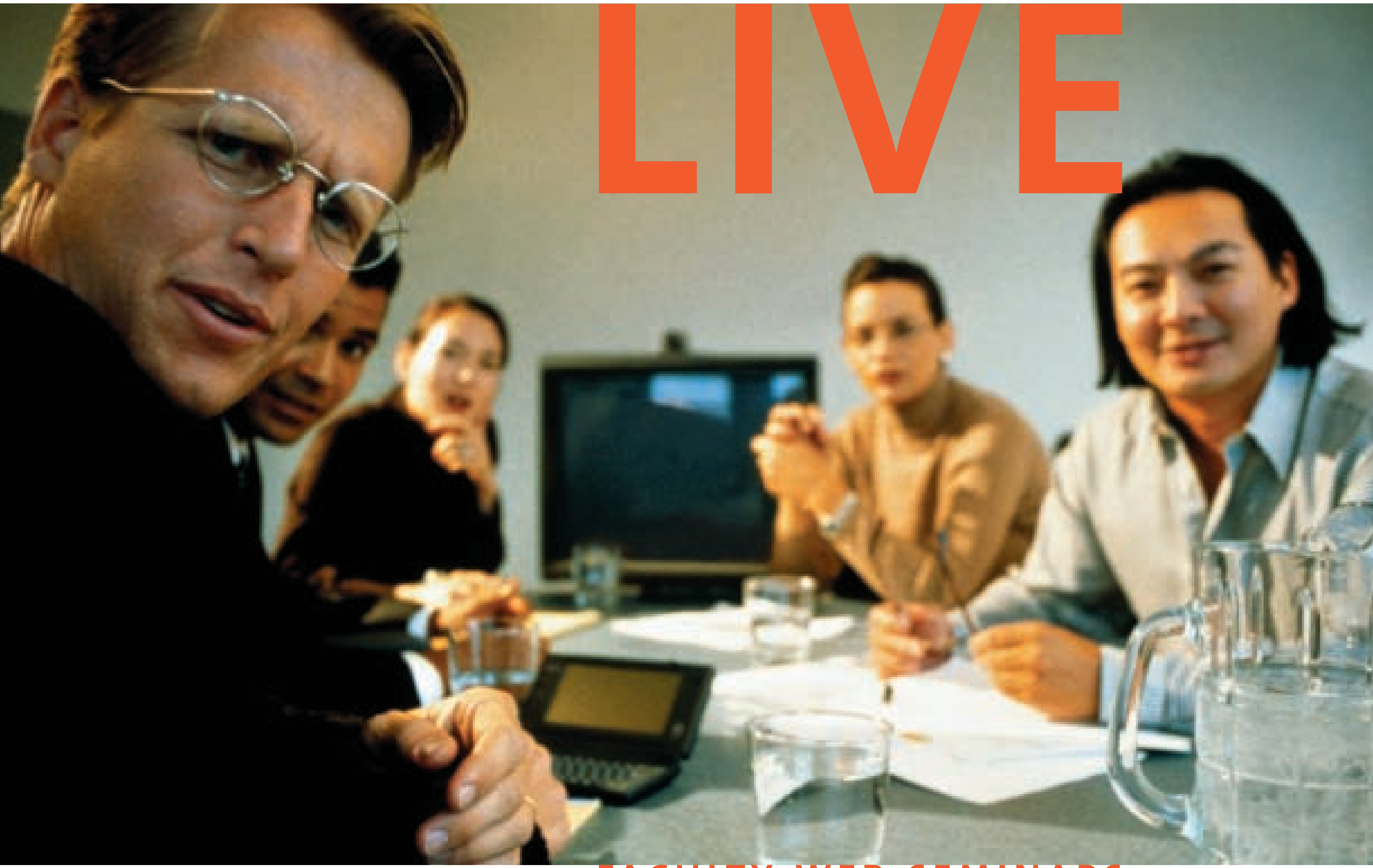
THE SECRET OF taking Vans Inc. from an $88 million company to one that sold for $396 million


LARRY JOST

within a decade meant finding a corporate strategy and sticking to it, Gary Schoenfeld, MBA '88, told a packed View from the Top audience in September.

"We decided we were no longer a domestic shoe manufacturer, but rather a youth lifestyle brand. We got very clear that our customers were 12- to 18-year-olds who embraced a Southern California lifestyle," said Schoenfeld, a onetime private equity investor, who as Vans' CEO engineered the company's turnaround. "Our strategy was so clear to everyone that when a supermarket chain wanted to partner with us in a multi-million-dollar promotion, our head of marketing knew immediately to turn it down because it wasn't part of our strategy."

Communication and people skills are also part of the secret to success. "I attribute a fair amount of my success to my ability to deal with people, and I attribute a lot of that skill to what I learned here at Stanford," Schoenfeld said, urging students to use their years at the Business School to stretch themselves intellectually. "Don't focus all your attention on your job search. Aim for the future but live for the present." ■



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LOOK BACK. THINK AHEAD. KEEP LEARNING.

DAVID DEAL

SEC Streamliner

COREY BOOTH, MBA '95

BEFORE THE ENRON and WorldCom scandals hit the press, if you wanted to compare the financial data of these firms to others in their industries, you could have accessed the EDGAR information system of the U.S. Securities and Exchange Commission, found the numbers you wanted, and laboriously typed them into your own spreadsheet. That's still what you would do, but Corey Booth, MBA '95, is working hard to change that.

A former McKinsey consultant, Booth was appointed chief information officer of the SEC in January 2004. Under pressure from Congress to improve the agency's capacity to protect investors and maintain fair, efficient markets, he is tackling multiple paper and data problems with a multimillion-dollar budget. One priority is getting companies to start using standardized data tags so that information reported to regulators can be more easily compared, not just by the SEC's own investigators but by investors using public data. "The economists at the Business School would probably describe this as trying to lower the transaction costs of stock and mutual fund portfolio ownership and analysis," Booth explains. "There is not enough analysis, partly because it is so labor intensive now."

Booth is also trying to make it easier for SEC employees to investigate potential fraud. The agency is literally inundated with millions of pages of documents from 12,000 companies annually and, under the Sarbanes-Oxley Act, is required to formally review the filings of one-third of the companies each year. What's more, when an investigation is launched, trucks dump thousands more paper and electronic documents on the agency's Washington, D.C., headquarters. "We had 8,000 boxes lining the hallways of headquarters when I arrived," says Booth, who "worried about workplace injuries because of the potential for boxes to fall on people."

Using scanners and optical character recognition software to create electronic copies, Booth has been able to move most of the paper into suburban storage. He is now tackling the other high-priority issues, including tagged data in filings, improved analysis tools for quantitative data, and workflow and content management tools.

"We were asked by Congress to be more effective," he says, "and it's very clear that staffing will go only so far. The rest has to come from technology improvements."

Fatherly Advisor

PETER SPOKES, MBA '79

RISING THROUGH THE RANKS of General Mills while raising six children, Peter Spokes experienced many conflicting demands on his time. One important lesson he has learned since: Executive dads respond to brief to-do lists offered at the right time.

As the executive vice president of the National Center for Fathering, Spokes, MBA '79, oversees day-to-day operations of the Kansas City–based center. His responsibilities include making sure the center's weekly email letter with "five practical action items" for being a good father goes out to 30,000 dads on Thursday nights. "We want it to arrive on Friday morning because that is when most dads have discretionary time ahead," he says.

What action items can Spokes offer executive dads who travel on business? For school-age kids, he suggests, "stick a note in your child's textbook 10 pages ahead of where they are." For younger children, "plan a specific time to call from the road because they need to hear your voice." For military dads, he suggests, "read your child's favorite story on a video camera" before shipping out.

LAURA MAXWELL SHULTZ

When dads need more complex advice, they can go to the organization's website, *fathers.com,* or take training courses offered by the center or churches and social service agencies trained by it. (With Spokes's business sense, the nonprofit center earns half its financial support by offering resources to others who promote good fathering.)

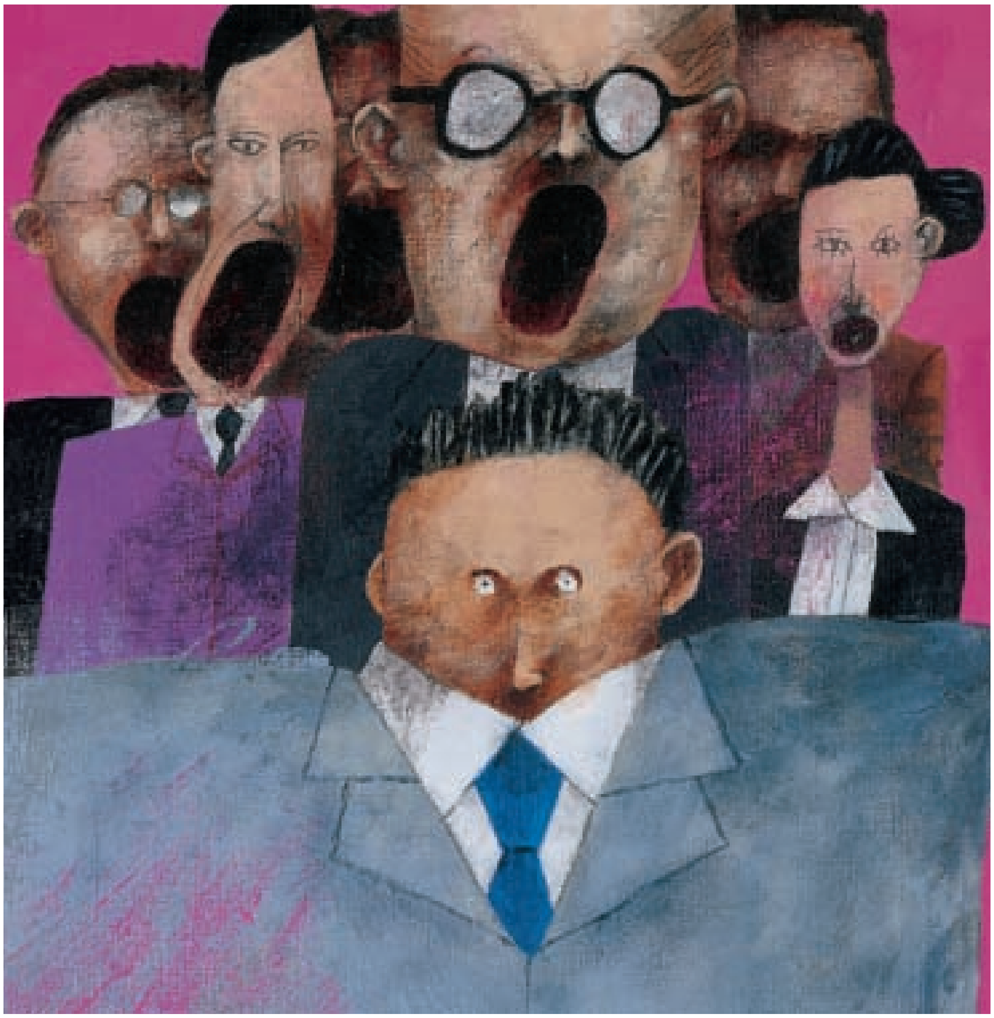
"We work with dads across the spectrum, from those in prison cells or homeless to guys in executive suites who haven't a clue what their teenagers are doing," Spokes told his class reunion last June. He is passionate about spreading grassroots fathering skills, partly because "40 percent of kids in America will go to bed tonight in a home where their dad doesn't live," he says, and many "social ills, including drug and alcohol abuse, teen pregnancy, and failure in school are correlated with the lack of an involved father."

"It's presumptuous for us to think we can affect [those statistics] tomorrow," Spokes says, "but hopefully in a generation or two, we will." ■

 BY MICHAEL PEÑA

The Power of Feedback

Forget the annual review, but periodically ask your boss for feedback in order to sharpen your performance, human resource consultants advise executives.



JONATHAN TWINGLEY

Aside from trays of pastries, nothing was served up sugarcoated at a recent session on getting and giving feedback at work. The breakfast briefing, sponsored by the Business School's Office of Executive Education, drew 120 supervisors and office workers to the Stanford Faculty Club to hear economist Myra Strober, a professor at the School of Education and the Business School, and her husband, Jay Jackman, a psychiatrist unaffiliated with the University.

Both are also human resource consultants for various Silicon Valley companies who try to get employees and their bosses to be more comfortable with soliciting and receiving the dreaded F-word.

Feedback, the presenters explained, is touchy with most people because they often associate it with criticism they received when they were children. "Criticism often reminds us of uncomfortable times in our past," Jackman said. "What people tend to underestimate is the power of this feedback."

At least half of all executives that the couple has worked with admit to having never asked for feedback. They felt that those types of questions might lead to arguments, new demands, or maybe even termination.

The result? Employees try to guess what their bosses want and lapse into maladaptive behaviors such as procrastination, denial, brooding, envy, and even self-sabotage—all fueling a cycle of avoidance, the speakers said.

"People will recognize that you're brooding, and they will not approach you," Jackman said. "You harbor this dark view of the world."

Some of Jackman's listeners nodded silently or giggled with recognition as they listened to the age-old problem of honesty in the office.

One executive offered some feedback of his own during the question-and-answer segment. He said that when he shares his opinion with employees, he asks what they think and allows leeway for disagreement. He also told the speakers that they should have touched on how to finesse workers with positive feedback.

Of course, Strober and her husband acknowledged the point. But as Strober explained: "The reason we didn't focus on that in this presentation is because none of us seem to have a problem with giving positive feedback."

Indeed, another executive asked the couple how she might get her boss to offer more constructive criticism about her work. Carrie Coltman is a senior program manager who focuses on workforce learning and development at Adobe Systems in San Jose.

"I'm really interested in getting good feedback because it's a big deal," said Coltman, adding that she found past breakfast briefings to be very informative.

Strober said that coworkers can be a good alternative when supervisors don't offer enough useful feedback. Jackman added that individuals often have a general sense of where they can improve and can broach the subject by bouncing those ideas off their bosses.

"By opening up the issue yourself, you give your boss permission to address those issues," he said.

One practice they felt equally adamant about was the annual review. They hate it. Annual reviews tend to be rigidly structured and rush through an immense amount of information without allowing time for thoughtful discussion, they said.

"Our assessment is that the annual review is a horrible way to get and give feedback," Jackman said. "What you want to have is an ongoing assessment."

But they found that some other notions do hold true. Harsh words usually cause men to get angry, while women cry. Being conscious of your emotions and responses, seeking support from friends, and tying feedback to rewards—doing your job better will get you that raise—are all effective ways of adapting.

They also talked about working with a business-savvy CEO who couldn't give feedback to subordinates because he needed to be liked, and about an engineer who reached middle management because of his technical skills, not his people skills.

You need to be ruthlessly honest with yourself. The purpose of all this is to enhance your own career.

Individuals tend to not share if they think that the other person will be overly hurt, which the speakers said isn't always the case. They added that becoming comfortable with one's own emotions is essential for either giving or receiving feedback.

"You need to be ruthlessly honest with yourself," Strober said. "The purpose of all this is to enhance your own career."

The speaker series, now in its 18th year, is designed for the academic, business, and technology sectors. Speakers are industry leaders, tenured faculty from Stanford, and other academics with expertise in current management topics.

The talks, held the first Wednesday of each month, are open to the public.

Past breakfast briefings have drawn crowds of 100 to 250 people, usually with a little more than half consisting of corporate executives. Admission is $48, and for Stanford affiliates, $36.

For more information, visit *http://gobi.stanford.edu/breakfastbriefings*.

Michael Peña is a writer for the Stanford News Service.

Business Without Borders

Whether it's computer technical support or product design going offshore, or concern that the United States now ranks 19th in the world in math and science education, the effects of globalization are frequent topics of discussion. Here's a quick look at what some speakers at the Business School have said in the past year.

From an outsourcing panel discussion cosponsored by the Sloan Master's Program and the World Affairs Council, October 2004:

We have to find real solutions, but we can't if we're running off into a protectionist mode. What is frustrating is that we're taking our eye off of the ball about what we should be doing constructively together to make sure that we have a climate where we can compete and where we will win ….

Investment in research, particularly at universities, is critical, because if the research and the innovation happens here, then the seeds of that innovation are going to be planted here, and at least some of those jobs are going to grow and blossom and stay here.

— CARL GUARDINO, *Executive Director, Silicon Valley Manufacturing Group*

The lack of transparency and information make the whole issue [of outsourcing] next to impossible to attack. We don't know what we're talking about.

— KARL SCHOENBERGER, *Pacific Rim Reporter, San Jose Mercury News*

The distribution of jobs is making social mobility more difficult. It is an incredibly unfair competition for the people with fewer resources.

— BOB BROWNSTEIN, *Policy Director, Working Partnerships USA*

We are gaining jobs where proximity to U.S. innovation is important; we're losing jobs where that proximity is not important.

— PAUL OYER, *Associate Professor of Economics*

From the Global Business and Global Poverty Conference, May 2004:

The American economy is resilient. There are new areas emerging in biotech and health care and others that will absorb a lot of people into the workforce.

— EDWARD BARNHOLT, *CEO, Agilent Technologies*

From the Health Care and Biotechnology Symposium, March 2004:

From 40 to 60 percent of postdocs in the United States are from the People's Republic of China and Taiwan. In 10 years, there will be a reverse brain drain in U.S. biotech. The people who will be leaving are the same people who are doing our best research here.

— FRED VOLINSKY, *Managing Director, RCT BioVentures*

From the Technology Industry Conference, April 2004:

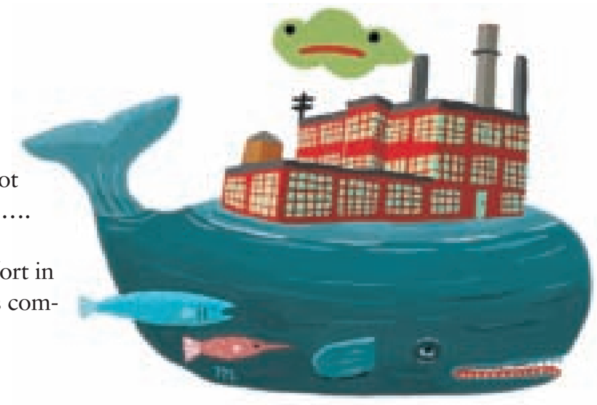
At the macro level, low cost [labor] is an excellent strategy, but it is not a sustainable position for an entire country. You are not going to tell your workers your objective is to pay less next month than this. The cost of employing people in Bangalore has shot up 100 percent in the past three years ....

What you see more and more is an effort in these countries to develop world-class competence in something.

— CLAUDE LEGLISE, MBA '82, *Vice President, Intel Capital*

A new kind of entrepreneurship will develop where teams will break away from being subsidiaries of a U.S. firm. Doing the work for somebody else is fine, but eventually they will create a kind of Silicon Valley culture and will start to develop products for the Western market, because they will have the necessary understanding of that market.

— SRIDAR IYENGAR, *Chairman, The IndUS Entrepreneurs; Board Member, Infosys*



AARON MESHON

From a View from the Top speech, October 2003:

India and China are graduating more computer science majors than we are in the United States, and that's scary. If you look out a number of years and look at K–12 math and science, we're behind India and China.

— BRUCE CHIZEN, *President and CEO, Adobe Systems*

Compiled by Cathy Castillo

Illustration by DAN PAGE

Organizing for Performance

How BP did it

IN THE LAST DECADE, many firms have learned how to organize themselves to deliver exceptional performance. One of the most successful has been BP, the energy giant formerly known as British Petroleum. Examining BP's story gives insights into a strategy that can achieve outstanding results.

BY JOHN ROBERTS

Based on "Organizing for Performance," a chapter in the book *The Modern Firm,* by John Roberts, 2004. The *Economist* reviewer of business books called it the best business book of 2004. Roberts is the John H. Scully Professor of Economics, Strategic Management, and International Business and codirector of the Center for Global Business and the Economy at the Business School. This article is published by permission of Oxford University Press.

IN THE LATE 1980S, BP was a politicized, top-heavy bureaucracy managed through a cumbersome matrix structure. The company was spread across numerous distinct lines of business, the result of its not having yet completely undone the conglomerate diversification in which it had indulged in the 1970s. Financial proposals required 15 signatures before they could be accepted, head-office staff filled a 32-story building, and meetings of 86 committees absorbed top executives' days. Performance was declining, the company was heavily indebted, and by 1992, the company faced a financial crisis that almost resulted in bankruptcy.

In recent years, in contrast, BP has reported some of the highest profits recorded by any corporation—$4 billion in the third quarter of 2004 alone. While high prices for crude oil contributed to these results, the company's cost-efficient operations, especially in its exploration and production business, were key to the strong performance it has generated over the last decade. Indeed, BP is widely recognized in the energy industry for its effectiveness in finding hydrocarbon deposits and its efficiency in bringing then to market.

This operational excellence was actually maintained and improved in circumstances that could have resulted in major disruptions in the workings of the firm: Between 1998 and 2000, the company absorbed two other major integrated oil companies, Amoco and Arco, that together were almost as large as BP itself, as well as a number of other companies.

These acquisitions brought scale and scope, but it was strategic and organizational changes implemented over the preceding decade under three successive CEOs that formed the basis for BP's remarkable turnaround.

The changes that eventually transformed BP began with divesting unrelated lines of business. The company then focused on three basic businesses: "upstream" oil and gas exploration and production, "downstream" petroleum refining and marketing, and petrochemicals. These business lines were obviously related, as upstream's crude oil is the basic input for the other two streams, but the three were actually run quite independently, because well-functioning markets for crude meant there were no advantages to internal dealings.

With the corporate strategy made clear, the organizational changes that would generate improved performance began under Robert Horton, who became CEO in 1989. His "Project 1990" sought to improve the speed and effectiveness of managerial decision-making. He transferred authority for many decisions from the corporate center to the business streams. In the process, layers of management were eliminated, and headquarters employment decreased by over 80 percent. Employees were encouraged to take responsibility and exercise initiative. Values of caring, trust, openness, teamwork, and cooperation were espoused. At the same time, as economic difficulties mounted, capital budgets were slashed, and employment was cut deeply.

Horton's abrasive personal style and the dissonance between the proclaimed values and the reality of job cuts alienated employees, while economic performance continued to deteriorate in the context of the general economic slowdown of the early 1990s. In 1992, Horton was replaced by David Simon, who, although more popular among employees, continued Horton's aggressive cost cutting. Employment fell from more than 97,000 in 1992 to just over 50,000 in 1995, and the company moved from a loss of $811 million in 1992 to a profit of $2.4 billion two years later, while its debt was reduced by $4 billion.

The biggest changes during this period occurred in the core upstream business, BP Exploration (BPX). There, John Browne (Sloan '81), who would succeed Simon as BP Group CEO in 1995, undertook a fundamental organizational redesign. The model, which BPX called an "asset federation," was later applied across the company as a whole. It led to fundamental behavioral changes and impressive results.

Browne began by refocusing the upstream strategy on finding and exploiting really large hydrocarbon deposits where the technical difficulties and attendant risks meant that BP's expertise and size gave it a relative advantage over "petropreneurs"—smaller firms who were often more successful than the large integrated oil companies. This strategy ran against the conventional wisdom of the time, which held that there were no more big finds to be had. It meant that success would depend on BPX's ability to discover such fields and to produce the resulting crude at low cost.

The next move was organizational. It was designed to induce the entrepreneurial initiative that would be needed under the new strategy. BPX had been divided into regional operating companies (ROCs), which had staffs of technical and business people overseeing actual operations. The heads of the ROCs and functions joined Browne in a global management group that ran the business stream. Managers of the actual fields had very limited discretion and control over the resources used in their units.

Browne began by pushing performance evaluation discussions down from the ROC level to individual fields. This led to a conscious experiment in organizational design, with the managers of a number of fields being given authority to decide how to run their operations and how to meet performance targets that they negotiated directly with top management of BPX. When this change resulted in increased outputs and reduced costs, the model was applied throughout BPX, beginning in the crisis year of 1992.

Exploration and production operations were divided into some 40 business units, called assets, each of which consisted of a major oil or gas field or group of co-located fields. Each was headed by an asset manager, later called a business unit leader. The ROCs were eliminated, with senior management of the stream pared down to

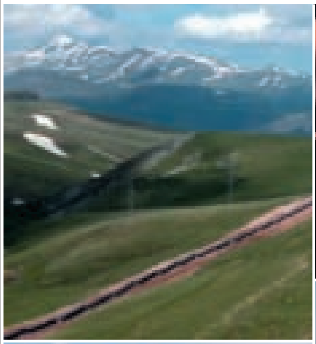
Building Cooperation and Initiative

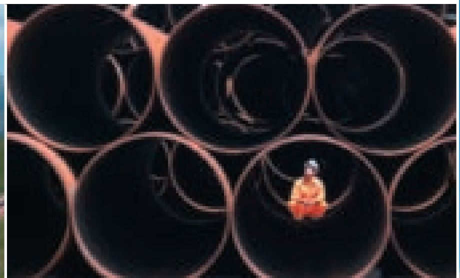
All organizations need two distinct sorts of behavior from their key members. One is the imaginative, diligent, principled pursuit of the individuals' own responsibilities, for example, reducing costs and increasing volumes in a BPX asset. The other is the generous, energetic, effective support of others' objectives and corporate interests, such as sharing knowledge across assets or allocating capital effectively. We call these "initiative" and "cooperation." The first is obviously crucial to organizational performance; the latter is too, if there are any real interdependencies across units—and if there are not such interdependencies, then there is no reason for the units to be in the same company! Getting more of both is the key to increasing performance, and getting the appropriate balance is crucial to optimizing the organization. The difficulty is that measures that induce more of one tend to result in less of the other.

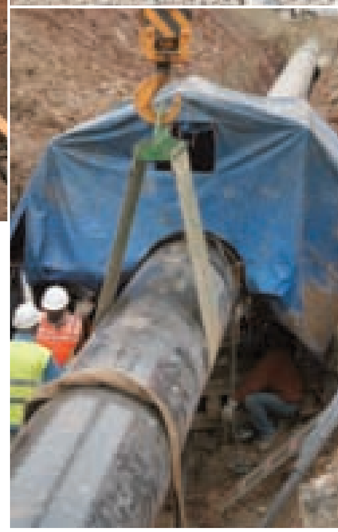
Managers need to think about the levels and mix of cooperation and initiative their organizational designs are producing and whether these are appropriate. If not, they should consider what changes might induce the appropriate behaviors.

At BPX, the delayering, creation of assets, empowerment, performance contracts, performance pay, and increased focus through outsourcing all increased initiative in a complementary fashion, with each design feature making the others more effective. However, they probably reduced the willingness to cooperate. After all, the managers had only so much time available, and working harder on their own responsibilities left less time for other things. Thus the peer groups and peer assists were designed to increase cooperation, although they may have eaten into the amount of initiative being provided. On net, however, the new design led to more of both cooperation and initiative. — JOHN ROBERTS

Working on Land and Sea







Oil and gas pipelines under construction in Turkey (this page) will move Caspian Sea resources from Baku, Azerbaijan, to the Mediterranean port of Ceyhan, Turkey. In deep-sea tracks of the Gulf of Mexico (opposite page), BP is also building assets that are expected to boost its Gulf production to 500,000 barrels of oil and gas daily by 2007. Under BP's reorganization, asset managers were given more freedom and incentives to plan production and investment.

Browne and two others who formed the BPX Executive Committee (EXCO). Technical and functional staffs were largely dispersed to the assets.

The asset managers signed individual performance contracts with Browne, agreeing to deliver specified levels of performance in terms of production volumes, costs, and capital expenditure. Within the limits of general corporate policy, they were then empowered to figure out how to achieve their promised performance. They could decide on outsourcing and choose suppliers, do their own hiring, and determine where and how to drill.

The performance was not aggregated below the level of the stream itself, and therefore, the performance of individual assets was fully transparent to EXCO. It tracked performance closely, investing in improved measurement and information systems and holding rigorous quarterly performance reviews. Through conversations in these meetings, Browne coached the asset managers, helping them develop their managerial skills and inculcating the values and norms he sought to spread through BPX.

Promises made in the performance contracts at the asset level became the basis for performance contracts for everyone within the asset with the asset manager. All employees' compensation was tied to their asset's performance and to the overall performance of the stream, which increased the variability of pay and the intensity of incentives significantly.

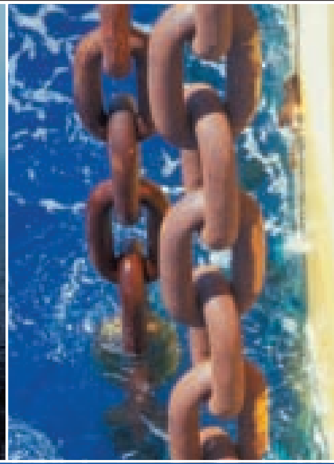
The asset managers found the new system liberating, and they responded entrepreneurially to the increased incentives, authority, and accountability with increased enthusiasm, imagination, and effort, just as had been intended.

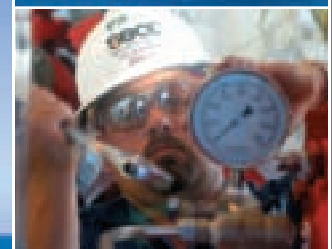
A problem soon arose, however. The leanness at the top that protected the asset managers from headquarters' interference also meant they could not rely on headquarters to advise and support them when technical or commercial problems arose. To respond to this need, the assets were aligned into four peer groups that, after some experimentation, were defined on the basis of the life stage of the assets. The key point was that assets within a group, although geographically dispersed, were likely to face similar problems. The groups met frequently, without any EXCO involvement.

A system of peer assists was then established under which an asset facing a problem could call on other assets in its peer group to send people to help solve the problem. Numerous other "federal groups" linked people with common interests and challenges across different assets. Strikingly, there were no explicit rewards for this cooperative activity, although it was crucial to sharing knowledge and driving down costs. Instead, the recognized mutual interdependence and the personal relations among the asset managers were the motivation.

The peer groups were also given another role early on, called peer challenge. Under it, peer group members were expected to challenge one another on the targets that they negotiated individually with the executive committee. This allowed collective expert knowledge to be brought to bear in establishing targets—knowledge that was not available to EXCO. Later, the peer groups each took collective responsibility for meeting the performance targets of the member assets and for allocating capital among them.

At the same time, increasing reliance was put on outsourcing. This extended to activities previously seen as critical, including the generation of seismic data on potential new fields: Only the inter-





pretation of the data was kept in-house. Strikingly, the logic of the performance contracts was sometimes extended to outside suppliers, whose payments were made a function of their performance. A triumph for this approach was the Andrew field in the North Sea, which had previously been believed to be too expensive to bring into production. By sharing cost savings with its contractors, BP was able to develop the field at a fraction of the original cost estimates and in much less time than had been believed necessary.

This organizational model led to remarkable successes at BPX. New fields were found and developed, the cost of developing fields was reduced substantially and kept being squeezed, and the productive lives of assets were extended.

After Browne became CEO of British Petroleum in 1995, this model was applied across the whole company. The appropriate definition of assets was less obvious in the other streams than at BPX, and establishing the right performance measures also presented challenges. Still, the system of discrete business units, peer groups and peer assists, small executive committees for each stream, performance contracts and pay, improved measurement and information systems, and peer challenge was instituted.

These changes in the organizational architecture and routines led to fundamental cultural changes. BP's people developed a deep, intrinsic dedication to delivering ever-improving performance. Strong norms emerged of trust, of admitting early when one faced difficulties ("no surprises") and seeking assistance, of responding positively to requests for help, of keeping promises about performance. These norms had powerful effects, supplementing the changes in architecture and process and generating remarkable initiative within the assets and great cooperation across them.

This model has been adjusted since, but its basic logic persisted through the 1990s and proved especially valuable when BP acquired Amoco and Arco, because the new assets were quickly integrated with the support of the peer groups.

In the wake of BP's success, many firms have sought explicitly to emulate its organizational design, while others adopted similar organizational designs on their own. There is, of course, no one best way to organize that all firms should adopt. The best organization design depends on the strategy being pursued, the market and nonmarket context, and the administrative heritage of the organization. Nonetheless, real gains in performance can often be achieved by adopting designs that adhere to the basic logic underlying BP's disaggregated model. These include:

- Focusing the activities of the firm to a select set;
- Creating business units with clear scope of responsibility and clear accountability;
- Giving strong incentives for unit performance;
- Linking units horizontally rather than requiring all communication to pass up and down through the hierarchy;
- Flattening the hierarchy and increasing spans of control;
- Outsourcing;
- Improving information, measurement, and communication systems; and, ultimately,
- Creating a culture oriented to delivering performance.

Implementing these—and getting them right—can, as at BP, lead to huge improvements in performance. ■

On the road with DANA GIOIA

He has marketed Jell-O and written opera librettos. Now Dana Gioia brings all his talents to bear on marketing the National Endowment for the Arts in zip codes high and lowbrow. **By PHILIP KENNICOTT**

As chairman of the National Endowment for the Arts, Dana Gioia, MBA '77, is determined to develop the arts in all areas of the country, including small cities. At left, he discusses projects with Robert Knight, executive director of the Yellowstone Art Museum in Billings, Montana before speaking (at right) to the Montana Arts Council.

Photographs by **DAVID SCOTT SMITH** • Illustrations by **MONICA HELLSTRÖM**

DANA GIOIA SAYS HE'S A MAN "who's good at running things." In the first half of his adult life, in the late 1970s and 1980s, he parlayed that ability into business success, rising in 1991 to the position of vice president of marketing at General Foods. During those same years he also worked with his pen, writing poetry for an increasingly wide national and international audience. By day, he buoyed the sinking sales of Jell-O; by night (and mornings and weekends), he worked just as assiduously to build a second career as a man of letters, a poet, a critic, an editor, and ultimately an influential arbiter of American cultural life. Now, as chairman of the National Endowment for the Arts, he is again "running things," and his various skills and aspirations are no longer compartmentalized.

Appointed to the top federal arts post by President Bush in January 2003, Gioia came with impeccable credentials: business success and artistic success; a reputation for hard work and talent; and a love of the American literary tradition that was reassuringly canonical and invigoratingly unpredictable. The NEA, buffeted for years by conservatives and their allies in Congress who accused it of promoting obscenity, had at its head a smartly dressed, energetic, charismatic, and Republican Poet-Businessman, a convenient hyphenated shorthand that Gioia did little to discourage.

"I'm the only person who ever went to Stanford Business School to become a poet," he said shortly after his confirmation. It was a good joke and it had the virtue, like some poems, of being not quite what it seems at first, and fundamentally true on closer inspection. He didn't *really* go to Stanford Business School to become a poet; he went to become a businessman. But he went into business because he *needed* to be a poet. He was heading for bohemia by way of respectability, on a path blazed before him by poets such as Wallace Stevens and T.S. Eliot, and composers such as Charles Ives—all of them successful businessmen and artists at the same time.

"I think he felt business school would be a good challenge for someone who had a literary education—in the manner of Wallace Stevens," says author and Stanford professor emerita Diane Middlebrook, who taught Gioia as an undergraduate and asked him to be a dormitory resident assistant when he returned for business school in 1975. Middlebrook remembers a serious student, fully fledged intellectually and capable, at a young age, of thinking strategically about his future. Like another Gioia mentor, Herbert Lindenberger, she also remembers Gioia invoking Wallace Stevens—the great American poet who rose to prominence in the insurance industry—as a role model. In that, and other things in life, Gioia has been consistently and conventionally unconventional, in a particularly American way.

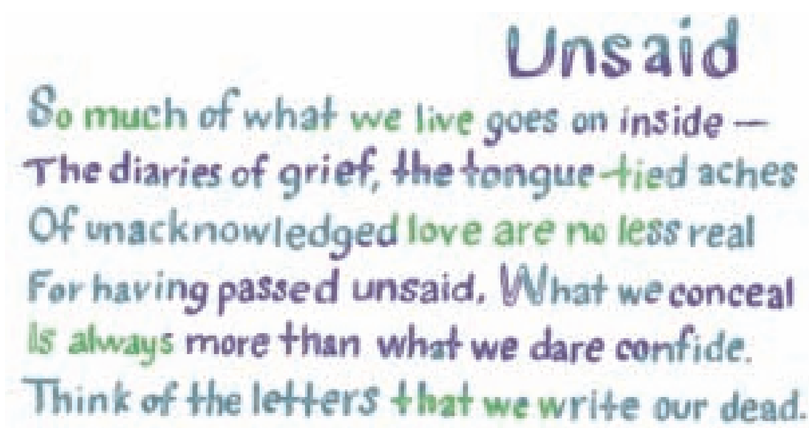
Gioia's self-description has always been more voluminous than the Poet-Businessman shorthand. He is, he says, Latin (of Italian and Mexican lineage), Catholic, and a Californian with working-class roots. He came from East Los Angeles, born in 1950 to a taxi driver father and a telephone operator mother. His youth was spent crisscrossing Los Angeles in search of new music, and art, and anything else that caught his imagination. He studied the piano and Latin and availed himself of the book and record collection left by an uncle killed in a plane crash. An approved biography, though not the one he uses as chairman of the NEA, mentions that he was a high school valedictorian, editor of the school paper, president of the speech club, and that he was "expelled or suspended for conduct three times."

"He was very proud of the fact that he came from East Los Angeles," says Lindenberger, Stanford professor emeritus of comparative literature. "I remember him telling me, 'A lot of the kids I went to high school with are in jail right now.' Yet here was a kid who had all the social manners of a Stanford student."

Gioia left Stanford as an undergraduate, spent two years at Harvard studying literature, and then returned to the West Coast to start at Stanford Business School.

"When I arrived at Harvard,

Dana Gioia and his family discuss poetry with Douglas Nagel of the Rimrock Opera Company before Gioia's poetry reading at Montana State University. Pictured in the righthand photo are Nagel, Gioia, sons Mike and Ted, and wife Mary Hiecke, MBA '77. Gioia began and ended the reading with the poem "Unsaid," below.



I knew everything about books and nothing about the world books were written in," says Gioia, in his office in Washington, in the Old Post Office building on Pennsylvania Avenue. He's in a dark suit and his foot is in a cast, the result of negotiating the driveway, on a dark night, with too much of his kids' stuff left lying about.

"I realized I wasn't really being trained to become a writer, I was being trained to be a professor. Comparative literature was in the avant-garde of the whole change in literary studies; it was the first

Reading selections from his three poetry books, Gioia charmed 200 lovers of language in Billings with "expressive eyes and hands to enhance his silken voice," the local newspaper art critic reported.

"He was very proud he came from East Los Angeles," says Lindenberger, Stanford professor emeritus of comparative literature. "I remember him telling me, 'A lot of the kids I went to high school with are in jail right now.'"

one to go theoretical. What comp lit became was essentially literary theory, and I was being trained to write in this mandarin code—which I was quite good at because I had been trained in theology and philosophy. It is a related discourse: philosophy without truth and theology without God."

Jobs in academia, especially literature, were becoming scarce. Gioia had no particular sense of entitlement, either. The decision to go to business school was pragmatic and made without any sense of regret or sacrifice. He returned to Stanford determined to get a career—and write.

"People often understand maturity as renouncing parts of your life, rather than refining and developing aspects of yourself," he says. "I was in business school to qualify for a good job that would develop into a real career. I was surprised that most of the people in business school began talking about their future jobs entirely in the language of self-realization: They imagined themselves coming into careers that gave them human fulfillment. To a certain degree this mystified me, because I brought a working-class attitude. The reason they pay us to do our jobs is because we wouldn't do them for free."

Keeping to a promise to write for three hours a day, he remained productive. But he noticed that his writing baffled his business school classmates, especially the "alpha males."

"I realized that my teachers and my fellow students were confused," he says. "If you're in business school, why are you writing? I did not consider them mutually exclusive, and in fact, writing while having a career in business made my life more complicated, but it eventually made me a better businessman. I had kept certain creative and imaginative capacities active and alive during my early years that I very much needed later on."

At least one Business School classmate, Richard S. Kelly Jr., says Gioia's fellow students were aware of his literary life, but not the degree of his productivity. "He was very engaging with people—a fun guy—and a lot of us were surprised at how prolific he was. He was very quiet about it," says Kelly, a retired investment banker who now works in the nonprofit world.

After school when he went to work for General Foods, Gioia took his writing underground while working his way up the corporate ladder. He moved to New York and did what was required of an ambitious young man. But as he rose through the ranks, he didn't join the expected country clubs. His cars didn't get noticeably better, and his social world was increasingly centered on the arts. Frederick Morgan, a poet and founding editor of the *Hudson Review,* met Gioia when Gioia came to a reading at a New York loft on a day snowy enough that attendance wasn't mandatory even for close friends of Morgan's.

"He heard about my reading through the grapevine," said Morgan shortly after Gioia's Senate confirmation. "Before he came to New York, he found out everything about the poetry scene, and he is certainly still doing that. He knows what's going on."

Middlebrook, still a friend of Gioia's, says, "His character has been remarkably consistent since the time I met him to the present day." His writing has remained lucid, his sense of self firmly rooted to his upbringing in California, and his criticism has often returned to the same themes. He has stayed loyal to early enthusiasms, such as the writing of Weldon Kees, a California poet who disappeared at age 41, probably into the waters below the Golden Gate Bridge. Gioia has written of Kees, "[His] work demands a critic who shares his belief in the desperate importance of poetry, and most critics—both in and outside of the universities—don't believe that poetry matters all that much to anyone's life."

IN THAT LINE, one gets a sense of two threads of Gioia's life: Poetry matters desperately to him, and like other poets, he craves readers, especially ideal ones. The time at General Foods, especially the early years writing without much audience, found Gioia speaking two very different languages, a vulgate of commerce and a private discourse of poetry. And yet, as much as these were separate in Gioia's life, there was definitely communication between them. Gioia's poems are troubled by the sense that words, if unread, are impotent ("… among the endless shelves of the unreadable…" "Here are the shelves of unread books …" "The world does not need words.") Put in crass terms, a poem without an audience is like a product without a market, and Gioia very much wanted, and wants, a market for his poetry.

Gioia says he wasn't really able to draw on his full talents—those imaginative skills he kept vital at night—until he had risen high enough to have a broader influence at General Foods. He cites, as an example, having rethought the marketing of Jell-O, which had been an immensely profitable but long declining product. The end result of this campaign was something called Jell-O Jigglers—a stodgy dessert reconfigured as finger food, home craft exercise, and a toy.

"I could absolutely think like an 11-year-old kid and then step back and do the shares and volumes," he says. "It went from decline to double-digit growth."

Gioia, however, is impatient with platitudes about creativity in the work environment.

"For a lot of people in business, being creative means just coming up with crazy stuff—you're so creative," he says. For him, rather, being creative was not just thinking like a child but being critical at the same time. "I think the most important thing I did for General Foods near the end of my career was to be able to distinguish between a potentially high creative idea and a mediocre creative idea, and to take the high-potential creative idea through a series of careful refinements and additions to turn it into an enormous idea."

Gregory Murphy, who as vice president of marketing was Gioia's supervisor at General Foods, echoes this self-assessment. He describes Gioia's work on Jell-O and Kool-Aid as "a renaissance" of the brands, and says, "There are lots of people who have a good idea a minute. That wasn't Dana. When Dana had an idea it was a big idea, a creative idea, a powerful idea."

The importance of criticism, whether it's an executive being critical of proposals or a writer analyzing another poet's work, is another consistent thread through all parts of Gioia's life. At the National Endowment for the Arts, he has championed building the skills of this country's newspaper arts critics.

"Part of fostering the arts is fostering discussion of the arts," he said in April 2003, and he has moved quickly to create seminars for critics who may not be professional arts writers.

It is as a critic that Gioia has had his most public career. In 1983, he published a poem that was also, in many ways, a distillation of a line of critical thought that he has pursued throughout his recent career. "My Confessional Sestina," as its title suggests, is written in sestina (or "song of sixes") form, a fiendishly clever display of poetic virtuosity that probably dates back to the 13th century. Six stanzas, of six lines each, form the bulk of the poem, with each line ending with one of six key words, repeated throughout according to a formula. In the first stanza, Gioia gently mocks the fashionability of such displays of idle skill:

> **Let me confess. I'm sick of these sestinas**
> **written by youngsters in poetry workshops**
> **for the delectation of their fellow students,**
> **and then published in little magazines**
> **that no one reads, not even the contributors**
> **who at least in this omission show some taste.**

Using the form to hammer home the dry, incestuous insularity of the poetry world, Gioia repeats throughout the poem in different combinations the words: sestinas, workshops, students, magazines, contributors, taste. One can sense the outsider's pleasure at mocking the claustrophobic world of academia—while proving, through his skill at the form, that he could hold his own within it, if he wanted to.

In 1991 he came back to these same thoughts in an essay for the *Atlantic* that was not so playful and was taken by many as much more than a light gibe at the professional poetry world. In "Can Poetry Matter?" Gioia lamented the loss of a wide audience for poetry—again, those unread books. And he did it, in part, in the language of the businessman he still was. "Like subsidized farming that grows food no one wants, a poetry industry has been created to serve the interests of the producers and not the consumers," he said. And even that subsidized product no one was buying. The late poet Anthony Hecht called the argument "garbage" and "dumb."

The essay, however, long outlasted its criticism. The notoriety it brought Gioia may have eased his transition from businessman into full-time writer. Its reception demonstrated wide interest in Gioia's literary ideas, and that attention arrived just a few years after one of the most difficult personal chapters in his life. In 1987, his first son died of sudden infant death syndrome. He had two more sons, but the first loss initiated what he calls a period of "soul search-

His poems are troubled by the sense that words, if unread, are impotent. Put in crass terms, a poem without an audience is like a product without a market, and Gioia very much wanted, and wants, a market for his poetry.

Gioia wrote the libretto for Nosferatu, *an opera about a vampire, which premiered in Billings in October. He poses for the press with arts patron Elizabeth McNamer before the premiere. With local and imported talent from both coasts, the Rimrock Opera Company also took the opera to Boise.*

"All great writers create villains who are attractive and plausible," says Gioia, who is backstage with his vampire rendition of Count Orlock, at the Alberta Bair Theater. Bass-baritone Douglas Nagel, in makeup, greets Gioia and Billings Mayor Chuck Tooley at the world premiere of Nosferatu.

ing." That soul searching, and a life that had, by the 1990s, become strangely bifurcated, helped precipitate a move to full-time literary work.

"I was on *Charlie Rose* at night, then I went into the office in the morning, and I said, you know, I'm nationally, internationally known —I could actually make a living," he remembers. "So after 'Can Poetry Matter?' that's what I did."

There was, perhaps, a sense among Gioia's artistic peers that he had made his fortune and would now lead the leisurely life of a gentleman poet. Not true, he says, "but I encourage people to believe that because it pains my enemies." Gioia asked his wife, Mary, a Business School classmate, to figure out how much they needed to live on and says, "She gave me a number and—like most people who are whizzes with numbers—it has always been the wrong number, perfectly calculated, but much smaller than it [should have been]." His literary career has had some lean years and some very good ones. Certainly, he has worked extraordinarily hard and published diligently.

He may have left business, but he didn't leave behind the talent "for running things." Gioia has emerged as the most influential chairman of the NEA since the beginning of the culture wars in the late 1980s. In the midst of huge national budget deficits, he managed to convince the president to give the agency a 15 percent budget increase, to $139.4 million (later reduced, after the presidential election, to $121 million).

More important, his tenure has been without significant controversy. He has championed initiatives that focus on access to the arts rather than funding for individual artists, including a nationwide tour of Shakespeare's plays and writing seminars for soldiers returning from Iraq and Afghanistan, a mix of writing as therapy, talent search, and oral history project, as well as an overt statement about the Endowment's interest in "red state" America.

Not long after he took the NEA job, Gioia appeared at a Press Club luncheon in Washington, D.C. Before he began his talk—essentially a stump speech for the agency and his plans for it—he recited from memory a little poem by Longfellow;

> **The tide rises, the tide falls,**
> **The twilight darkens, and the curlew calls;**
> **Along the sea-sands damp and brown**
> **The traveler hastens toward the town,**
> **And the tide rises, the tide falls.**

He offered the poem apropos of nothing, just to say, why not start the afternoon with a little poem? But this poem figures in an essay Gioia wrote, years back, about Longfellow—at the time, about as unfashionable as any dead white male poet could be. He cited the poem, in his essay, as an example of the poet's "popular" as opposed to high style. The essay was also a defense of poets who manage to succeed at both the high and low styles.

Gioia has bridged both styles, and his career in business may have been, in some ways, part of that intellectual span. Businessmen, especially ones who market things, must sell to a wide audience. They must know the vernacular, and love it without condescension, if they are to find consumers. On the other hand, every poet wants to find the ideal reader, the kind of reader that Gioia tried to be for Weldon Kees when he discovered the poet among the shelves of the unread and championed his work. This is what Gioia once said of his style, and his ideal reader:

"I suspect, however, that I still write more for my old fellow workers, who will never read my poems, than for the literati ..." ■

Philip Kennicott is culture critic of the Washington Post.

White House Honors Operations Researcher

FACTORIES, manufacturing processes, and the supply chains that support them are the focus of research by **Erica Plambeck**. One of her recent papers ponders when it is smart to sell the manufacturing plant and outsource an operation.

She is also a recipient of a Presidential Early Career Award for Scientists and Engineers presented last September in a White House ceremony. The award is the highest honor from the U.S. government for young researchers. It recognizes "extraordinary achievements of young professionals at the outset of their independent research careers."

Plambeck, an associate professor of operations, information, and technology, was among 57 researchers nationwide and one of three from Stanford to receive the award.

Recently Plambeck received a National Science Foundation grant of nearly half a million dollars to conduct work over five years on real-time supply chain management. She was among 12 women NSF grant recipients who were recognized by the Early Career Award. This represented the first time since the award was created in 1996 that the majority of NSF-nominated recipients were women. Eight federal departments and agencies annually nominate young scientists and engineers whose work shows the greatest promise to benefit the nominating agency's mission.

Erica Plambeck was honored at a White House ceremony for her early career accomplishments.

NASA/BILL INGALLS

John H. Marburger III, science advisor to President George W. Bush and director of the Office of Science and Technology Policy, presented the awards at the White House.

A RESPECTED FACULTY MEMBER who has shared his ideas with Business School alumni groups around the world, **Robert Burgelman** is the 2004 recipient of the Jaedicke Silver Apple Award presented by the Stanford Business School Alumni Association.

"Paris, Denmark, Florence, India—you do have good taste in events to attend," joked last year's recipient, **Rod Kramer**, in presenting the award during Alumni Weekend activities in October. "Robert is a world-class teacher of the first rank. He has an energy, intensity, and focus that both intimidates and inspires. Like all good leaders in the classroom, he draws out the very best in his students, whether MBAs or executives. He pushes his students hard, but he does so with his terrific sense of humor, wonderful laugh, and trademark smile, which traverses the full width of his face."

Burgelman, the Edmund W. Littlefield Professor of Management, is director of the Stanford Executive Program. An academic leader in the field of strategy, he is the author of several books, the most recent being *Strategy Is Destiny* (Free Press, 2002).

The award, named for Dean Emeritus Robert Jaedicke, was created to recognize faculty members with significant involvement in alumni programs.

LIKE ANY MAJOR business, sports leagues and teams share a need for good strategy, effective leadership, and a solid business model, **George Foster**, the professor behind the Business School's sports management classes, told an Alumni Weekend audience last October.

Foster compared the National Hockey League where 20 of 30 teams are losing money and players struck this year to the National Football League, which hasn't had a strike since the late 1980s and has teams bringing in an average of $160 million to $180 million of revenue annually. The NHL "has devastating problems—lack of strategy and lack of leadership, " said Foster, the Paul L. and Phyllis Wattis Professor of Management.

Foster told the audience he has worked with several startups hungrily looking for the next customer. He finds teams, and especially stadiums, no different. "There is a paranoia about revenue growth that's more extreme in the sports industry," he said. The Washington Redskins, for example, recently added 500 seats to their stadium even though very few of them have actual views of the field. (The team installed TVs for those fans.)

THE INSTITUTE FOR THE STUDY of Labor in Bonn, Germany, has awarded its 2004 Prize in Labor Economics to **Edward Lazear**, the Jack Steele Parker Professor of Human Resources Management and Economics. Lazear received the $62,000 prize last October in Berlin.

Lazear "used price theory and incentive theory from economics to organize our understanding of how to mobilize human resources and incentives within firms," said economist James Heckman, a University of Chicago Nobel laureate who worked with Lazear when he taught at the business school there. "He single-handedly founded the modern field of personnel economics. He revolutionized the teaching, the practice, and the understanding of personnel economics and the economics of human resources in companies."

The founding editor of the *Journal of Labor Economics,* Lazear writes on labor markets, microeconomic theory, and issues involving worker compensation and effects on productivity. He began developing seminal ideas in personnel economics as he expanded his teaching from doctoral students to MBA students in the 1970s and 1980s at the University of Chicago Graduate School of Busi-

faculty publications

DEVELOPMENT ECONOMICS

Biography of a Subject—An Evolution of Development Economics
Gerald M. Meier
Oxford University Press, 2005

Trade Liberalization and Intersectoral Labor Movements
Romain Wacziarg and Jessica Seddon Wallack
Journal of International Economics (Vol. 64, No. 2), DECEMBER 2004

FINANCE

Estimation of Continuous-Time Markov Processes Sampled at Random Time Intervals
Darrell Duffie and Peter Glynn
Econometrica (Vol. 72, No. 6) NOVEMBER 2004

GOVERNMENT POLICY

Avoid Hubris: And Other Lessons for Reformers
John McMillan
Finance and Development (Vol. 41, No. 3), SEPTEMBER 2004

The Bias Backfire
Paul Oyer and Scott Schaefer
Harvard Business Review (Vol. 82, No. 11), NOVEMBER 2004

Detecting Bioterror Attack
Edward Kaplan and Lawrence Wein
Emerging Infectious Diseases (Vol. 10, No. 8), AUGUST 2004

Children as a Public Good
Myra Strober
Dissent (Vol. 51, No. 4), FALL 2004

HEALTH CARE ECONOMICS

Business and Medicine: Corporate Treatment for the Ills of Academic Medicine
Alan Garber
New England Journal of Medicine (Vol. 351, No. 16), OCTOBER 2004

The U.S. Physician Workforce: Serious Questions Raised, Answers Needed
Alan Garber and Harold Sox
Annals of Internal Medicine (Vol. 141, No. 9), NOVEMBER 2004

HEALTH CARE POLICY

Diminishing Significance of HLA Matching in Kidney Transplantation
Xuanming Su, Stefanos Zenios, Harini Chakkera, Edgar Milford, and Glenn Chertow
American Journal of Transplantation (Vol. 4, No. 9), SEPTEMBER 2004

Practical and Ethical Challenges to Paired Exchange Programs
Lainie Friedman Ross and Stefanos Zenios
American Journal of Transplantation (Vol. 4, No. 10), OCTOBER 2004

MARKETING

Anchoring Effects on Consumers' Willingness-to-Pay and Willingness-to-Accept
Itamar Simonson and Aimee Drolet
Journal of Consumer Research (Vol. 31, No. 3), DECEMBER 2004

The Effect of Forced Choice on Choice
Ravi Dhar and Itamar Simonson
Journal of Marketing Research (Vol. 41, No. 3), AUGUST 2004

Effect Propensity
Itamar Simonson, Thomas Kramer, and Maia Young
Organizational Behavior and Human Decision Processes (Vol. 95, No. 2) NOVEMBER 2004

Alternative Models for Capturing the Compromise Effect
Ran Kivetz, Oded Netzer, and Seenu Srinivasan
Journal of Marketing Research (Vol. 41, No. 3), AUGUST 2004

Extending Compromise Effect Models to Complex Buying Situations and Other Context Effects
Ran Kivetz, Oded Netzer, and Seenu Srinivasan
Journal of Marketing Research (Vol. 41, No. 3), AUGUST 2004

OPERATIONS MANAGEMENT

A Numerical Method for Solving Singular Stochastic Control Problems
Sunil Kumar and Kumar Muthuraman
Operations Research (Vol. 52, No. 4) JULY/AUGUST 2004

ORGANIZATIONAL BEHAVIOR

From T-Mazes to Labyrinths: Learning from Model-Based Feedback
Jerker Denrell, Christina Fang, and Daniel Levinthal
Management Science (Vol. 50, No. 10) OCTOBER 2004

PERSONNEL ECONOMICS

Internal and External Labor Markets: A Personnel Economics Approach
Edward Lazear and Paul Oyer
Labour Economics (Vol. 11, No. 5) OCTOBER 2004

SUPPLY CHAIN MANAGEMENT

Mitigating Supply Chain Risk Through Improved Confidence
Martin Christopher and Hau Lee
International Journal of Physical Distribution and Logistics Management (Vol. 34, No. 5), 2004

The Triple-A Supply Chain
Hau Lee
Harvard Business Review (Vol. 82, No. 10), OCTOBER 2004

ness. The future managers pressed for real-world applications of the theories and analysis in labor economics. "By being forced to teach this in a business school and by being a very imaginative economist, he could see there was a field here," said Nobel laureate Gary S. Becker, a former colleague of Lazear's at Chicago. "It's marrying labor economics with organizational behavior."

Professor **Michael Harrison** studies how randomness affects business processes ranging from the valuation of financial derivatives to managing processing networks like telephone call centers. His work has been honored with the 2004 John von Neumann Theory Prize presented by the Institute for Operations Research and Management Sciences to honor a body of work with lasting impact in operations research and management science.

For more than 30 years, Harrison, the Business School's Adams Distinguished Professor of Management, has developed and analyzed stochastic models related to business—that is, business processes in which randomness plays an important role. The citation accompanying the award singled out his work for "profound contributions" to both "stochastic networks and mathematical finance."

In accepting the award, Harrison acknowledged his coauthors and the School. "For the most part, my research has been supported by my school, not by outside funding agencies," he said. "Through five deans and innumerable associate deans, that support has been unwavering. This is the way the institution works, not some special deal that I managed to negotiate. Three crucial factors in my research career have been the School's stability, its commitment to developing junior faculty, and it scholarly orientation." ■

Hedge Funds

Irrationality Can Pay Dividends

JIM FRAZIER

According to axioms in modern market analysis, hedge funds play an important role in efficient markets by nudging misaligned and irrationally priced securities to the rational path. But *do* hedge funds always counter market irrationality? Do they act as a brake on overexuberant investors?

A groundbreaking study by Stefan Nagel, assistant professor of finance at the Business School, finds that hedge funds not only failed to create a stabilizing force during the technology bubble of 1998 to 2000 but instead profitably rode the bubble by taking advantage of the very core of "irrational exuberance," the term that Federal Reserve Board Chairman Alan Greenspan coined in a key caution of stock market excess.

Nagel and coauthor Markus Brunnermeier of Princeton University conclude that hedge fund managers were amply aware of the exaggerated market response for technology stocks. "Overall," the researchers write, "our evidence casts doubt on the presumption underlying the efficient markets hypothesis: that it is always optimal for rational speculators to attack a bubble." The article is published in the October 2004 *Journal of Finance.*

The premise of countertrading by sophisticated investors "has been the main argument for why bubbles could not happen," Nagel said in an interview. Yet, the study's results importantly support recent theories of the limits of arbitrage. According to these theories, rational investors reasonably refuse to short or trade against even plainly overpriced securities if they believe most investors will continue to act irrationally, such that the security's trading price will continue to rise. These, of course, are the very conditions of a market bubble.

"There is no evidence that hedge funds as a whole exerted a correcting force on prices during the technology bubble," Nagel and Brunnermeier write. Indeed, "among the few large hedge funds that did [resist the bubble], the manager with the least exposure to technology stocks—Tiger Management—did not survive until the bubble burst."

Nagel and Brunnermeier note that Tiger Management was an example of a classically rational investor. Tiger declined to take major positions in technology stocks, believing them to be overpriced. While Tiger Management was proved right in the long run, its results fell far behind other funds that soared with the "irrational" approach of buying technology issues. Tiger was compelled to close up shop.

"The key to this is that if you feel you can predict what the irrational guys are doing, then it may be entirely rational to buy irrationally priced stocks," Nagel said. In part, these possibilities arise because of time factors in hedging. Hedge traders generally are unwilling to hold short positions for a long period. Instead of betting on long-run reversal to fundamentals, they may prefer to follow short-run trends in the behavior of "noise traders," as economists call them. "It seems that the hedge funds did exploit such a predictability [during the bubble]," noted Nagel.

Nagel and his coauthor use a novel approach with the usually secretive hedge funds to unearth trading patterns. They turn to quarterly filings with the Securities and Exchange Commission. These so-called 13F filings are required of all investment institutions with more than $100 million under discretionary management for securities positions of 10,000 shares or greater with a value more than $200,000. "It hasn't been generally known that hedge funds filed these forms like any other institutional investor," Nagel said.

The data provide a fascinating insight into hedge fund equity strategies during the technology bubble. The authors find that hedge funds ramped up their tech holdings in 1999, and then, with excellent timing, stepped away from long positions in the sector—holding on to big gains as the market tumbled in 2000 and later.

Not only did funds do this in the aggregate, but their timing on individual stocks was prescient as well, the researchers say. What might we conclude from hedge fund behavior and the efficient markets hypothesis? "We have to be careful here. Their behavior may be rational from the perspective of the hedge funds," Nagel said. Think of it perhaps as rational relativism: The hedge funds "may act in a way that does not lead to a rational [price] level—at least not right away," the economist said.

In Nagel's view, "the culprit is more likely to be found in the individual or unsophisticated investors; the main problem may be too many day traders—enough to allow hedge funds to predict their behavior and enough for the funds to ride the bubble." Indeed, in terms of public policy, "it may be more important to encourage these not-so-sophisticated people to behave more rationally than to regulate hedge funds."

Nagel and Brunnermeier's work bolsters the emerging field of behavioral finance by looking closely at asset pricing in what some think of as psychological terms. Their findings of hedge fund behavior during the technology bubble of our lifetime has been replicated and reported in a MIT working paper that found similar behavior by Hoares Bank, a savvy British player during the famous South Sea Bubble of 18th-century England. In that case, a putative trading company offered a stock exchange for all British government debt, and a bloating of stock values followed the offer. Importantly, there were no limits on leverage of short trades nor locked up company stock, two factors sometimes blamed for hedge fund actions in the latest technology bubble.

— FREDERICK ROSE

"Hedge Funds and the Technology Bubble," Markus K. Brunnermeier and Stefan Nagel, Journal of Finance*, October 2004.*

Organizational Behavior

Furnish for Success

IT'S PRETTY OBVIOUS THAT YOU can tell a lot about a person from the way she outfits her home or office. But what you may not know is that your own behavior can be subtly influenced by her choice of items when you're in that space—without your even realizing it. In studying this effect, Christian Wheeler, assistant professor of marketing, has found that certain types of objects can, in fact, elicit very specific kinds of behavior.

Wheeler and three other researchers, including Aaron Kay and Lee Ross from Stanford's psychology department, carried out a number of studies in which they exposed individuals to objects common to the domain of business, such as boardroom tables and briefcases, while another group saw objects such as kites and toothbrushes. The researchers then gave all of the participants tasks designed to measure the degree to which they were in a cooperative or competitive frame of mind.

In every case, participants who were "primed" by seeing the business objects subsequently demonstrated that they were thinking or acting more competitively. The effect was the strongest when they had to respond in situations that were deliberately ambiguous. When questioned, however, participants denied that being exposed to business-related objects had influenced their behavior in any way.

"People are always trying to figure out how to act in any given situation, and they look to external cues to guide their behavior, particularly when it's unclear what's expected of them," Wheeler says. "When there aren't a lot of explicit cues to help define a situation, we are more likely to act based on cues we pick up implicitly." Simple exposure to business-related objects, it turns out, can activate the "cognitive components" that are associated with competitive behavior, he says.

For example, participants who had previously looked at pictures of business-relevant materials completed more word fragments, such *wa_, _ight,* and *c__p___tive,* using competition-related words—such as *war* (vs. *was*), *fight* (vs. *tight*), and *competitive* (vs. *cooperative*)—than those in the neutral condition. Such participants also evaluated an ambiguously written scenario involving two men who are undergoing a certain degree of conflict as being much more about competition than cooperation.

Another study transferred the effect to the real world. Participants were given $10 and asked to decide how much they were willing to share with a partner. The catch was that the partner could refuse any offer perceived to be too low, in which case neither participant would receive anything. While subjects exposed to neutral pictures generally split the money 50-50, only 33 percent of those who looked at business-related objects did, showing that they had become less cooperatively oriented. Results were similar when participants were exposed in the experiment room to actual business-related objects, such as a briefcase and an executive pen, as opposed to a backpack and a wooden pencil.

The effect was lessened, however, when the strategy game that participants were asked to play was deliberately depicted as being cooperative in nature. "This shows that when people are given an explicit context for how to behave, there is less room for business primes to exert an influence," Wheeler explains.

People are always trying to figure out how to act in any given situation, and they look to external cues to guide their behavior, particularly when it's unclear what's expected of them.

"These are pretty big effects with pretty minor manipulations," he says. The fact that participants were unaware their behavior had been influenced even when this fact was pointed out to them in the debriefing after the experiment is also significant. "We're simply not conscious of how many of the things all around us affect our behavior," he notes. This can be true, he says, even if we are not simply receiving the messages through subliminal tricks such as rapid image flashing in advertising, which is designed to circumvent our conscious awareness—but when we are seeing the objects right in front of us, as the participants in the study demonstrated.

Other research has shown that words, concepts, and images can subliminally influence people's behavior, but Wheeler's is the first experimental work to show that objects can as well. One implication of these studies, he notes, is that organizations may want to take a more serious look at how their office decor can be designed to encourage either competition or cooperation.

— MARGUERITE RIGOGLIOSO

"Material Priming: The Influence of Mundane Physical Objects on Situational Construal and Competitive Behavior Choice," Aaron C. Kay, S. Christian Wheeler, John A. Bargh, and Lee Ross, Organizational Behavior and Human Decision Processes, *September 2004.*

Consumer Behavior

Readers Tap Best-Seller List for New Authors

Each week thousands of readers look at the *New York Times* best-seller list to see what everybody else in the country is reading. And as soon as a title hits the list, booksellers typically push the book to the front of the store and slash its price by as much as 40 percent.

So it seems reasonable to assume that once a book makes the list its sales will really take off—if not for the lower price then because readers might view best-seller status as a sign of quality or because they don't want to miss the action. According to the Business School's Alan Sorensen, an assistant professor of strategic management who has studied the effect of best-seller lists on sales of hardcover fiction, the majority of book buyers seem to use the *Times'* list as a signal of what's worth reading. Relatively unknown writers get the biggest benefit, while for perennial best-selling authors such as Danielle Steel and John Grisham, being on the list makes virtually no difference in sales.

JIM FRAZIER

"There is an effect, but it's small—much smaller than most people would have expected," says Sorensen, who studied sales records for 2001 and 2002. "What's remarkable is there is this dominant downward [sales] trend," he says, describing the typical sales path over time in the fiction titles he studied. Most sales occur soon after a book hits the shelves and gradually peter out. "If anything, what appearing on the [best-seller] list does is not so much cause your sales to increase from one week to the next, but rather to decrease at a slower rate."

Of course, looking at best-sellers alone wouldn't prove that any week-to-week sales changes were caused by the list itself. To answer the causal question, Sorensen needed a comparison group: books that sold well but somehow missed the list. So he looked at data from Nielsen BookScan, a sales monitoring service that tracks retail sales of books across the nation. Unlike the *New York Times,* which samples sales from only some stores, Nielsen BookScan captures most actual sales.

Consequently, Sorensen found differences in the two lists. In fact, in the two years studied, Sorensen found 109 different books that failed to make the *Times* list even though Nielsen reported they sold more copies than other titles on the *Times'* list. Thus, if Sorensen saw sales rise on the Nielsen BookScan data the week following that same title's appearance on the *New York Times* list but saw no similar increase for a different top-selling Nielsen book that wasn't on the *Times* list, he inferred that something about the appearance on the *Times* list caused the subsequent jump in sales.

Based on these comparisons, Sorensen estimates that previously best-selling authors got the least benefit from being on the *New York Times* list, while unknowns had the greatest jump in sales. On average, he estimates, appearing on the *Times* list might increase a book's first-year sales by 13 to 14 percent, but for first-time authors sales probably would increase by an impressive 57 percent. And for established authors "the list has no discernible impact," writes Sorensen.

This pattern suggests the best-seller list primarily tells consumers what may be worth reading. "It's free advertising for new authors who make it to the list," Sorensen says. With a well-known author, on the other hand, people don't need a best-seller list to help them decide whether to buy the book.

Sorensen also looked at the famous "Oprah effect," the stunning way being chosen for Oprah Winfrey's on-air book club immediately catapults a title onto the best-seller list. Though reluctant to name numbers because there were few Oprah titles in the sample, Sorensen says the Oprah effect is "many times bigger" than the best-seller effect.

If best-seller lists are indeed generating extra sales, are those sales stolen from other books? Or are those extra sales *literally* extra sales, bought by people who wouldn't otherwise have bought any book? "It's a really hard question, and I don't have the ideal data for answering it," he says. But he has indirect evidence suggesting that being on the list generates extra sales. If he's right, everyone but the perennially best-selling authors and their publishers may have a little bit less to grumble about.

— MARINA KRAKOVSKY

Best-Seller Lists and Product Variety: The Case of Book Sales, *Alan T. Sorensen, GSB Research Paper #1878, May 2004.*

Accounting

Weighted Averages Help Transfer Pricing

How should companies price goods that they ship between their own divisions or related companies?

Internationally, that quandary confronts the producers of nearly half of all U.S. imported goods, a third of all U.S. exports, and a huge proportion of global trade elsewhere. By definition these aren't arms-length deals in an open marketplace, and they raise tough questions. What price, for instance, might Ford of Germany charge a Ford division in Mexico for German-made engines that are installed in Mexican-assembled cars?

For nearly half a century, textbooks in management and accounting have given a standard answer to this question based on a classic analysis by the economist Jack Hirshleifer in 1956. He showed that the best economic result occurred either at a market price for the product being shipped or, failing that, the marginal cost of the item to the division making it.

But Hirshleifer's approach does not take into account several complicating factors that are pervasive in multinational corporations: differences in corporate income taxes and limited knowledge by the firm's central management. For example, corporate income taxes are higher in Germany than in Mexico. Ford might want, then, to put a low transfer price on its German-built engines in order to produce lower taxable profits in Germany and higher ones in Mexico. But managers in Germany might feel cheated when their bonuses suffer with the German division's profits. They might reduce emphasis on producing these export engines.

In a prize-winning research paper, Stanford Graduate School of Business accounting professor Stefan Reichelstein and coauthors Tim Baldenius and Nahum Melumad of Columbia University have developed a real-world answer to transfer pricing that balances both the economic criteria confronted by Hirshleifer and the puzzle of international tax rates. A relatively simple weighted average is the management optimum for transfer prices, they say. The conclusion, arrived at through a series of mathematical models, promises a new management tool for thousands of firms that confront these problems.

Currently, most companies determine a single set of transfer prices, driven primarily by the goal of minimizing overall corporate taxes. The authors contend that approach has ignored other hugely important areas, from management incentives in foreign divisions to allocation of production capacities and guidance for future capital investment.

"Transfer prices tell certain regional or country managers what the value or price of some intermediate product is and use that information to maximize the profit of the company as a whole. That is the economic function of transfer pricing," Reichelstein says.

The separate worlds of tax folk and management planning types "even splits the accountants," he notes, and creates separate industries. "The tax accountants look on pricing as entirely a compliance issue," he says. Meanwhile, management accounting consultants are preoccupied with transfer prices for both internal allocations and public reporting purposes. These are big and growing businesses in their own right: By one report (in the *Economist*), employment of transfer pricing experts tripled in the past few years in the top four British accounting firms.

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Reichelstein favors maintaining separate prices for management purposes and for taxation, which he says shouldn't be done to sidestep tax laws but to aid a wide range of management tasks. It's legal to maintain two sets of prices. But corporate lawyers and tax accountants have worried that separate management prices might be misunderstood and bring adverse results with government tax auditors and in the court of public opinion. Yet, "there are great gains through better corporate management and planning to be unlocked here by having the flexibility of different approaches," he says.

In their paper, which was awarded the Chazen International Research Prize by Columbia Business School, Reichelstein and his coauthors demonstrate that the optimal internal transfer price for management purposes should be a weighted average of the producing division's pretax incremental cost and the most favorable arm's-length price admissible for tax reporting purposes.

For example, let's say that a company division in Ireland, a low-tax country, has concluded that on the margin the pretax cost of producing a widget is $10. At the same time, the various valuation methods allowable by the tax authorities show that $20 per widget is an admissible arm's-length price for tax purposes. Suppose that Irish tax rate is 20 percent. The optimal transfer price for management purposes is determined by putting 80 percent of the weight on the pretax cost of $10 and 20 percent on the $20 tax-efficient answer. The resulting weighted average transfer price is $12 per widget.

The approach assumes that separate prices will be used for internal and tax reporting purposes. "Once the transactions have happened, the economic coordination problem no longer exists and then transfer prices are irrelevant—just an accounting construct," says Reichelstein. "It's just the opposite for the tax side, where we need to report a value after the transaction has occurred." — Frederick Rose

"Integrating Managerial and Tax Objectives in Transfer Pricing," Stefan Reichelstein, Tim Baldenius, and Nahum Melumad, The Accounting Review, *July 2004.*

Newsmakers

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

Looks Like a Boot, Feels Like a Sneaker

AS A CONSULTANT, **Beth Cross,** MBA '88, helped athletic shoe companies push the latest materials such as gel padding, carbon fiber, and air pockets into their footwear. After business school, she and **Pam Parker,** MBA '89, started Ariat International to bring foot comfort to the equestrian set. Today Union City–based Ariat rings up $80 million per year in sales and owns about 17 percent of the U.S. market for Western wear, according to *Business 2.0* magazine.

Without an advertising budget at first, Cross told the magazine, they gave away their boots to up-and-coming riders at horse shows and rodeos, which prompted others to want the boots. "There's no better way to get a retailer to stock your product," Cross said, "than to have people start calling for it."

Shaking the Western boot industry from the soles up, Beth Cross's tennis shoe background added long-needed comfort.

ROBYN TWOMEY

Teen Tours Totally Techno-Free

DO YOU KNOW a teenager who can get along without a cell phone, MP3 player, and email for 24 days? If so, he or she probably doesn't need 3D Life Adventures, the experiential education organization founded by **Jerry Casagrande,** MBA '96. In the growing outdoor education industry, 3D is unusual because it mixes outdoor adventure activities with historical and social experiences and has high participation rates from ethnic minorities, according to the *Washington Post.*

On 3D's two summer expeditions—"Carolina Immersion" and "Appalachia to Atlanta"—students travel in vans and are encouraged to read from a library of books covering subjects such as new immigrants, natural history, and field guides to areas they are exploring in groups of 7 to 10 with two or three adult guides.

Although the guides have cell phones for emergencies, electronic amenities of modern life are not allowed. Perhaps this is not surprising from Casagrande, who once went to an Amazon.com job interview at the Business School thinking he would be "doing something cool with native people" floating down the Amazon River.

Web Court Coverage Has Hollywood Edge

WHILE IN BUSINESS SCHOOL, **Louis Goldberg,** MBA '02, and **Michael Breyer,** MBA '01, came up with a plan for an Internet business: wireless Internet access to courtrooms so lawyers could retrieve files and emails on their laptops during trials. Last fall, the entrepreneurs switched the direction of the information flow: For $200 a day, their company, Courtroom Connect, offered Hollywood glitterati and Wall Street investors a chance to eavesdrop on the dirty laundry being presented inside a Delaware courtroom where Walt Disney shareholders were suing the media company's directors over the severance package of former CEO Michael Ovitz.

Webcasts of trials have been offered before, but this was the first with Hollywood-level production values, such as multiple camera angles and split screens to show the evidence while witnesses squirmed, according to the *Wall Street Journal.* For those needing gossip material on a budget, the company offered delayed viewing of each court session for $10.

SAN FRANCISCO CHRONICLE

Trip Hawkins, MBA '78, has taken video games from the small screens of television to the tiny screens of cell phones.

Digital Pacifiers

Trip Hawkins, MBA '78, has started his third game company, this time offering inexpensive mind candy to run on cell phones.

Hawkins founded Electronic Arts, the biggest videogame publisher in the world, says the *San Francisco Chronicle.* His next venture was 3DO, a company that made consoles for games before filing for bankruptcy in 2003. Hawkins' third company, Digital Chocolate, hopes to capitalize on a new market for killing time using cell phones. Describing one of his offerings, Hawkins said, "For the child, it's a digital pacifier, but for the parent, it's digital aspirin."

Mystery Shoppers Cover the Globe

Byron McCann, MBA '78, manages spies of a specific sort: They descend on shopkeepers, call centers, and websites with the sort of needs only consumers can dream up. Known as "mystery shoppers," these are folks who report back pronto on any flaws in service. McCann, president and CEO of Service Intelligence, a leading mystery shopping service in North America, was recently elected president of the International Mystery Shopping Alliance, according to *Excite.com*'s Money section. McCann said the alliance was created to "support global brands and help them meet their customer experience objectives" on five continents. Training shoppers to be consistent worldwide is apparently one of the management challenges.

LANCE CLAYTON

Too Big for the Nest

TOO MUCH SUCCESS can be a problem if, like Salt Lake City–based Wasatch Funds, you offer some of the best-performing small-company investment packages. CEO **Samuel Stewart,** MBA '69, PHD '70, told *BusinessWeek* that some of the companies in Wasatch's six U.S. diversified small-cap funds had grown too big to be called small cap. The solution: Wasatch opened its first growth fund for mid- and large-size companies. The fund includes small-cap graduates such as medical device maker Medtronic.

SAN FRANCISCO CHRONICLE

Studying the big-league competition while managing small-cap funds helped Sam Stewart develop Wasatch's new large-cap fund.

Contrarian Ratings More Valuable

WHILE THERE WAS money to be made off analysts' recommendations during the recent bull market's rise and fall, investors would have had a better chance if they had some additional inside information on the analysts' employers, the Associated Press reported in a story citing research coauthored by Business School professor **Maureen McNichols**.

"From 1996 to 2003, the best analyst stock recommendations were those that went against the grain of the securities firms issuing them," the wire service reported. If an analyst's call was contrary to the overall bearish or bullish stance of the recommendations issued by his or her firm, investors had a greater chance of making money on the analyst's advice.

Decorated Soldier's View of Sacrifice

COMBAT TEACHES SOLDIERS to "appreciate what we're given, because people give up everything they might have become for us," retired U.S. Army Capt. **Paul Bucha**, MBA '67, told Yale students last fall. One of 129 living recipients of the highest military award for valor, the Congressional Medal of Honor, Bucha was campaigning for presidential candidate and friend Sen. John Kerry.

During the years following his Vietnam service, Bucha said he realized war has lasting, harmful effects on those involved and their families, but little attention is paid to the consequences. "We have learned to place a burden on people, and as long as it's out of sight and out of mind, we don't care," he said, according to the student newspaper, the *Yale Daily News*.

His solution for Iraq: Have the U.S. Army recruit 600,000 regional units from around Iraq, and with the help of allied nations, train them to maintain the peace.

Garen Staglin, MBA '68 (center) and his wife Shari raised millions for schizophrenia research after the disease struck their son Brandon (left).

A Family's Journey

IN 1990, venture capitalist–winemaker **Garen Staglin** and his wife Shari came home from Europe to find their only son locked in a psychiatric hospital. A National Merit Scholar, Brandon Staglin, at 18, had suddenly developed the symptoms of schizophrenia, a thought-processing disease that strikes about 1 percent of Americans, usually in early adulthood.

"At one point, things were so bad that Brandon was ready to kill himself," said Staglin, MBA '68. "I said, 'There is hope. We will figure this out.'" Brandon is better now and is working for the family winery.

The Staglins have not only helped their son find the best treatment available but have raised millions for schizophrenia research, partly through an annual music festival at their Napa Valley winery, the *San Francisco Chronicle* reported.

Researchers also say the family's willingness to talk about their experience has gone a long way toward decreasing the stigma of the disease and offering other families hope.

Sharks Outflank Terrorists

Howard "Butch" Kerzner, MBA '91, is "defying conventional wisdom that 9/11 changed travel forever," says *Forbes* magazine. Taking over as CEO of Kerzner International, the casino resort company founded by his South African father, Solomon Kerzner, the younger man is leading a $1.1 billion joint venture to build the 2,000-room Atlantis in Dubai and a $230 million casino project in Morocco. The company's hot destination now is the Bahamas, where tourists take an acrylic tube through a shark tank in a resort designed to resemble Mayan ruins.

While most resorts hunkered down after the 9/11 attacks, *Forbes* said, Kerzner issued a straight-to-video movie featuring its Caribbean resort and a rebate program. According to Howard Kerzner, "Post-9/11 was our best year."

More Finger Prints for Tighter Security

STUDYING only two fingerprints when screening at U.S. borders to prevent entry of known terrorists can be expected, at best, to properly identify only three out of four people. This is according to press reports of a study by Business School professor **Lawrence Wein,** who testified before the House Select Committee on Homeland Security. Ranking committee member Congressman Jim Turner (D-Texas) discussed the study in an October 15 letter, according to the *Washington Post*. Turner wrote to Homeland Security Secretary Tom Ridge to complain that the government had not moved faster to implement a better 10-finger-print system. ■

 BY TODD A. BARRETT, MBA '95

Read the Fine Print: We Dare You

As disclosures of risk run rampant in the fine print of corporate publications, this investor searches the marketplace for somewhere to hide.

JOHN CUNEO

THE OTHER DAY, having jaywalked back to work after knocking back a couple of cocktails, I was getting ready to operate some heavy machinery when I took a look at the latest 10-K of one of my favorite companies. Then I got really scared.

For it would seem that in this post-Enron, Sarbanes-Oxley era, equity investing is really risky business. SEC filings and prospectuses are chock-full of risk disclosures. There are market risks, interest rate risks, weather-related risks, product development risks, political risks, risks of not disclosing enough risks. Hey, is this investing or skydiving?

Take a gander at this passage from a recent Disney filing: "For an enterprise as large and complex as the Company, a wide range of factors could materially affect future developments and performance. These factors may include international, political, health concern, and military developments that may affect travel and leisure businesses generally; changes in domestic and global economic conditions that may, among other things, affect the international performance of the Company's theatrical and home video releases, television programming, and consumer products; regulatory and other uncertainties associated with the Internet and other technological developments; and the launching or prospective development of new business initiatives." Yikes.

But is this really that complicated? Doesn't it boil down to: If the economy goes bad, Disney's business goes bad? OK, got it.

Or how about this: "Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied." Wait a second. Do you mean that the board's Magic 8-Ball isn't really predicting the future? If business really required soothsaying, wouldn't the world be run by Madame Cleo?

How far will this go? What's next? "Our CFO runs with scissors"? "Our marketing chief swims too soon after eating"? Will disclosures have to cover any and all contingencies to calm investors and their class-action–hungry counsel? "Our directors are generally level-headed, but they may just decide to take off to Vegas and let it all ride on lucky seven." Don't forget that California may drop into the sea just before that comet hits us between the eyes.

In trying to warn of every exigency, the disclosures end up covering none. As it is now, the cries of disclosure are just so much noise, tuned out by the marketplace and thus not really protecting anyone. How else to explain that a recent survey by UBS of investors found that nearly one in five investors expected to make 10 to 14 percent on their portfolios over the next year. Don't they know the polar ice caps are melting? Haven't they read that the killer bees are heading our way?

For some investors, no amount of information will protect them from themselves. That's why with investing, as with so many things, *caveat emptor.* We can't and shouldn't expect disclosures to protect us. In all of Enron's disclosures, never once did I come across the line that said, "Hardy-har-har." And I didn't hear WorldCom tell anyone to "call Spitzer before we steal the light bulbs, too."

We don't know what might happen, and that's just the point. No amount of disclosure will ameliorate all risks. At some point, every investor needs to act on faith, whether in taking a leap or a baby step. It's not that I'm some libertarian; if my car is going to spontaneously combust, I appreciate a government-inspired heads-up as much as the next person. But markets are fickle and unpredictable, which, as I think about it, is about all the disclosure that any investor should ever need. ■

Depending on how you enjoy this, Todd Barrett, MBA '95, may or may not be responsible for this article.

upcoming events

February 23: Arbuckle Award dinner honoring Robert Bass, MBA ’74, president, Keystone Inc.

March 2: Future of Entertainment conference

March 5: Black Business Students Association conference

March 9: “Effecting Value-Based Change at Work” by Debra Meyerson, PHD ’89 and Stanford professor; a Lifelong Learning Web seminar for alumni/ae

March 9: Executive education breakfast briefing by Regis McKenna, chairman, McKenna Group

March 10–12: Stanford International Alumni Conference and Global Business Leadership Award dinner honoring Jean-Pierre Garnier, MBA ’74, CEO, GlaxoSmithKline; in London

March 14–April 25: “Norms and Cultures,” by Ena Inesi and Elizabeth Pontikes, doctoral students, a Lifelong Learning Community Study Group for alumni/ae

April 6: High-tech conference

April 9: Business of Education conference

April 12: Excellence in Leadership Award dinner honoring Herbert Allison Jr., MBA ’71, chairman, president, and CEO, TIAA-CREF; New York City

April 12–16: “Interpersonal Dynamics for High-Performance Leaders,” a Lifelong Learning program open to GSB alumni/ae only, San Jose

April 13: Executive education breakfast briefing by Maureen Govern, chief technology officer, Convergys Corp.

April 21: “Nonprofit Board Governance” by William Meehan, MBA ’78 and GSB lecturer; a Lifelong Learning Web seminar for alumni/ae

April 29–30: Spring reunions for MBA classes of 1990, 1995, 2000, and 2004, plus Half Century Club reunion for the classes of 1925–1954 on April 29

May 11: Executive education breakfast briefing by Jacqueline Novogratz, MBA ’91, CEO, Acumen Fund

June 16–19: MBA 25th reunion for Class of 1980

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

* Executive Education offerings on page 67

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