STANFORD BUSINESS

MAY 2005

DIALOG

25TH REUNIONS
Alumni share what matters most

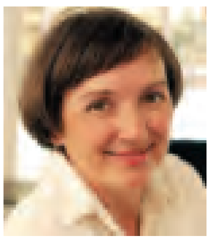
JAMES VAN HORNE
Former students cold call the venerable finance professor

PLUS: Surviving the tsunami: A student's account

Sound of Silence

When I first read the article on page 30, I felt bad for a pregnant friend. There is no evidence to support a widespread rumor that playing classical music makes babies smarter, the research report says. My friend, 7 months pregnant at the time, had begun playing classical music to her unborn child.

Knowing she had spent a sizable sum on a CD series especially marketed to relatives of babies, I couldn't bring myself to tell her I worked with a professor who concluded the claims were bogus. It's nearly impossible to prove a negative, I thought, so I can't guarantee her the music doesn't work the way she thinks, and because of her investment, she will be predisposed to not believe me. The conversation might end our friendship, and besides, I rationalized, my friend (who previously spent her discretionary cash on rock concerts) might need some new music to help her rest.



I felt a little duplicitous concealing this information from her, however. As someone in the business of spreading stories that are supposed to be more factual than fictional, I realized I would have rushed to tell her if the professor said playing the music to her baby worked. This is one of the complexities of communication, mass marketed or personal, that Professor Chip Heath is trying to sort out.

As an editor and writer for a mass medium, I also try to sort it out. Experience teaches me that humans are predisposed to hear or read what we want to hear or read and spread what we want to spread. For the same reason that politicians kiss babies but not fourth graders, magazine editors put photographs of celebrities on their covers along with headlines about flat abs, a "Mozart Effect" on babies, and serial murderers. Most aren't guessing this works—they have sales figures to prove it.

This magazine doesn't survive on subscription sales and our alumni/ae surveys support our being different, so we have wiggle room to tell you a few things you might not want to hear. In this issue, for some of you that would be the article on executive pay, or perhaps the heretical one about the "irrationality" of voting in democracies, which I find interesting to think about in light of the risks that many Iraqis took to vote earlier this year. Or it might be the story about 25th reunions, where we dare to suggest that post-MBA life includes some difficult losses as well as successes.

In short, we believe that you know—or begrudgingly admit—the creation of new knowledge, whether in a research institution or a business, involves challenging the status quo, sometimes confirming what was believed and sometimes upending it.

In the article on Heath's research, I was aggravated to learn that one state legislature required day care centers to play classical music without a shred of evidence that the music improved the children's learning. I wanted to chastise the politicians involved, but then, there was the matter of my own unwillingness to spoil a friend's optimism, which suggests a broader conspiracy. This may be anecdotal but it's not a rumor: Almost everyone in America believes babies should be kissed.

Kathleen O'Toole
EDITOR

STANFORD BUSINESS

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

PUBLISHER
Cathy Castillo

EDITOR
Kathleen O'Toole

CLASS NOTES EDITORS
Christa Amsden, Gale Sperry

PRODUCTION MANAGER
Arthur Patterson

ART DIRECTION & DESIGN
Steven Powell

CONTRIBUTING WRITERS
Helen K. Chang; Nancy Evans; David Goodman, MBA '71; Joanne Jacobs; Marina Krakovsky; Alice LaPlante; Marguerite Rigoglioso; Janet Zich; and scores of class secretary columnists.

COPYEDITING
Heidi Beck, Lila Havens, Kate Kimelman

PREPRESS
Prepress Assembly, San Francisco

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*

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

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

Our International Perspective

When our faculty–staff team returned from the Business School's first-ever executive forum in India in mid-January, they were energized. Some 250 people attended the briefings we held in New Delhi, Mumbai, and Bangalore. Senior Associate Dean Dan Rudolph and Associate Dean for Executive Education Gale Bitter met directly with executives from India's largest conglomerates. Professors Robert Burgelman and Seenu Srinivasan kept enthusiastic audiences attentive with lectures on strategy and marketing. As Dan Rudolph told one of India's national financial newspapers, "We want to be at the vanguard of India's exciting economic growth, not only in terms of attracting the best candidates for our programs but also learning about what challenges Indian business leaders are facing."

In the future, expect to hear more about Stanford Business School abroad because we hope to carefully but surely expand our international activities and profile. Why now? We already were moving in this direction a year ago with the launch of our new Center for Global Business and the Economy aimed at creating a critical mass of international cases, course content, and programming. Last summer, the School also embarked on its accreditation review, a sort of rigorous evaluation by our peers, last undertaken 10 years ago. The three-person committee included Harvard Business School Dean Kim Clark, MIT Sloan School of Management Dean Richard Schmalensee, and former University of Chicago President Hugo Sonnenschein.

It is no surprise that the accrediting body, the Association to Advance Collegiate Schools of Business, renewed our credentials in the fall. The team was generous in its summary of us as "an extraordinary institution, one of the very best business schools in the world by any standard." However, as we all know, the point of any review is to find areas that can be enhanced to achieve the full potential. One area the team flagged was the need for the School to focus on the international business community.

The committee was correct. Does this mean we are about to launch a quarter-abroad exchange program? No. Our small size, which makes the experience here so personal, makes that difficult because we do not have enough faculty to adequately staff an overseas operation. And there is no time. Our curriculum is already brimming with content that we believe our students should experience. Moreover, the nearly 30 percent of our MBA students and 53 percent of executive education participants coming from outside the United States bring consistent international perspective to our programs.

That said, 2005 has so far been a year in which we are executing and planning more actions internationally than ever before. The goal: to better prepare our students and ourselves for global challenges. We are developing global faculty ties, increasing the international content of our programs, exploring ways to deliver more executive education abroad, and bolstering our international visibility to ensure a steady flow of high-quality applicants from around the world to our MBA, Sloan Master's, PHD, Executive Education, and Summer Institute programs.

NEAL HAMBERG

In the future, expect to hear more about Stanford Business School abroad because we hope to carefully but surely expand our international activities and profile.

In addition to the School's efforts in India, I spent time in Mexico in January with alumni and corporate friends. *El Norte* newspaper published an article about management based on a discussion I had with one of its reporters. In March, I was in London for the Stanford International Alumni Conference featuring Business School economist John Roberts and organizational behavior professor Rod Kramer, among other luminaries from the University. This conference is another important doorway through which we can engage people abroad.

In April I also visited Australia and am scheduled to be in Hong Kong this spring. Already on the drawing board are events in Argentina and Brazil (fall 2005), Australia and New Zealand (winter 2006), and Japan (spring 2006) as well as return visits to Europe. Our Stanford Global Supply Chain Management Forum is planning a conference in China (spring 2006) in conjunction with the Hong Kong University of Science and Technology.

Our faculty also are engaging in new discussions with colleagues abroad. We developed a faculty exchange program in entrepreneurship at Tsinghua University in China. And to cite just a few examples of new international content, faculty members Hau Lee and Seungjin Whang, who codirect the Global Supply Chain Management Forum, are pursuing fresh cases on Esquel (China), Toyota (Japan), TSMC (Taiwan), Smart Car (France), POSCO (Korea), Cemex (Mexico), Woolworth (U.K.), Starbucks (South America), and Nokia (Finland).

Looking ahead, I hope those outside the United States will notice a measured but increasing international profile for the School. ■

STANFORD BUSINESS

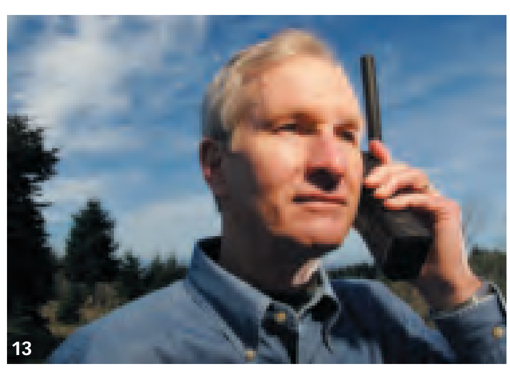
MAY 2005 • VOLUME 73, NUMBER 3

Features

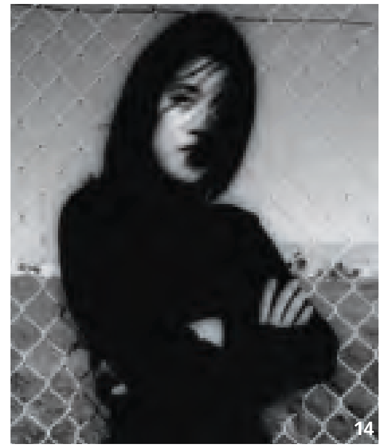
COVER: *Photo illustration by Nola Lopez*

6

Departments

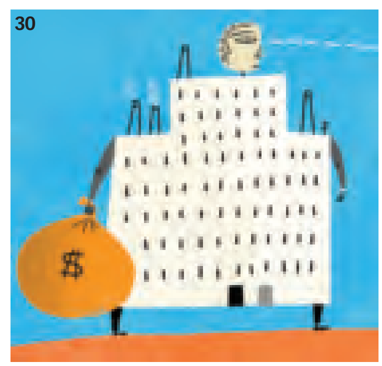


13



14

30



Spreadsheet

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

KURT ANDERSON

Spring Cleaning

FACULTY, STAFF, AND STUDENTS aren't the only ones hanging around Littlefield Management Center. Ambitious woodpeckers hunt for bugs that sometimes set up camp in the teak window casings of the 16-year-old building. When workers come to oil and reseal the woodwork on a biennial basis, they first spend time filling up holes created by the avian excavators.

Trust Increases Student's Scores

TRUST IS A KEY INGREDIENT in academic achievement, Tony Bryk told a November conference sponsored by the Stanford Educational Leadership Institute. Without a basic atmosphere of trust among teachers, principals, parents, and students, children are unlikely to improve their basic skills.

During the 1990s Bryk, then a noted Chicago-area school reformer, conducted a multiyear survey of teachers and principals to measure levels of trust at Chicago-area elementary schools. He found that educators working at top-quartile schools reported much higher degrees of trust on their campuses than did their colleagues at lower-performing schools. Over time, Bryk noted, schools reporting low levels of trust had only a one-in-seven chance of improving student scores in reading and math. Schools with more trusting atmospheres had a one-in-two chance of improvement.

Trust, he warned the audience, "is not something learned through a one-day sensitivity training but is built patiently through day-to-day interaction."

Bryk joined the Business School faculty in 2004. He has a joint appointment in the School of Education.

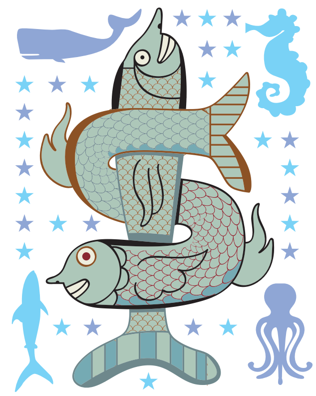
The Wage of Aquarium

TO GENERATIONS OF GSB students, Monterey meant the last stop before Pebble Beach. But 20 years ago, the introduction of a state-of-the-art aquarium on the city's waterfront transformed Monterey into a tourist destination in its own right. As the years progressed, it was easy to see that the Monterey Bay Aquarium had stimulated the city and its economy. But to what extent remained a mystery until one of the aquarium's board members, a Business School student volunteer with the Board Fellows program, undertook a study of one year's economic impact on the surrounding community.

"In total, the aquarium was responsible for $260 million in economic activity in 2003, of which an estimated $250 million was in California," wrote second-year student Andrew Rourke. He totaled direct, indirect, and induced spending related to the institution. "Of this, approximately $173 million was generated within Monterey County." In addition, Rourke noted, the aquarium paid $2.7 million in state and local taxes and fees. It also stimulated hotel, sales, and income taxes.

Only 5 percent of its visitors were from within the county, and with 433 employees, many in professional or research-oriented positions, the aquarium itself proved to be one the city's top 10 employers.

Rourke left the aquarium's board of directors in December, but he remains a leader of the School's Board Fellows program, which this year boasts 95 students assigned to the boards of 55 nonprofit organizations.



ILLUSTRATIONS BY FEDERICO JORDAN

Students Connect to Marine Platoon

THANKS TO THE EFFORTS of Business School students, a platoon of Marine combat engineers is playing football in Fallujah as they work toward rebuilding Iraq.

"Thank you for putting the care package together. It's a nice reminder of how many people support us over here," wrote Lance Corporal Cody Light after receiving some of the nearly 800 holiday cards and 38 boxes filled with gifts ranging from Tootsie Rolls to footballs sent by GSB students.

The project was organized by second-year student Georgiann Kronschnabel, whose sister Samantha, a second lieutenant, leads the 38-member platoon.

Students wrote personal notes, and most included snapshots of themselves with their best wishes. "It's nice to see what people who care actually look like," wrote another Marine. Instead of the original goal of sending $20 worth of gifts to each platoon member, the students put together packages worth about $100 each.

"The gift packages included items my sister, Sam, says are either hard to get, incredibly useful, or both," said Kronschnabel. They included snacks, new socks, personal hygiene items, and some soccer balls, magazines, and playing cards.

While in Fallujah, the platoon rescued downed helicopter crews, led convoys to nearby towns, and played an instrumental role in the siege of the city. The platoon recently has been building humanitarian aid stations in Fallujah.

From Fiction to Fact

STEVE CASTILLO

After Anne Mulcahy took over ailing Xerox Corp. in 2001, she was asked by her employees to describe the Xerox of the future. Mulcahy had a novel idea. She committed her vision to paper by writing a fictitious *Wall Street Journal* article, complete with performance metrics and made-up quotes from analysts, to describe a revitalized company, circa 2005.

Mulcahy's prediction sounded more like science fiction than a vision statement. Truth was that Xerox was teetering on the verge of bankruptcy. More than $17 billion in debt, the company had recorded losses in each of the preceding six years and was under investigation by the Securities and Exchange Commission.

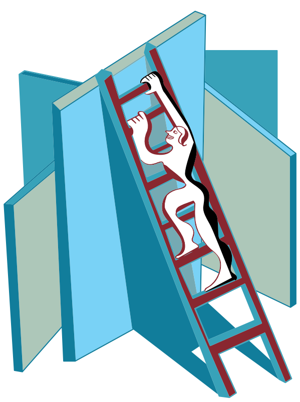
But Mulcahy and her team devised a bold plan for recovery. They addressed their problems with liquidity by quickly raising $2.5 billion in cash, then cut the company's capital expenditures by 50 percent; reduced its sales, general, and administrative expenses by one-third; and slashed its total debt in half.

"Even with all the cost cutting we did, we didn't take a dollar out of research and development," Mulcahy told students during a View from the Top appearance last December.

As for her literary attempt, Mulcahy said: "Looking back on the article now, I'd say we've already accomplished about 80 percent of the things we set out to do."

And the Walls Came Tumbling Down

"When the markets ratchet up, business ethics move to the back burner," says Patrick J. Kuhse, a white-collar felon and former international fugitive who spoke to MBA students about his own "critical-thinking errors" on the way to his first million dollars. The School's Center for Entre-



STEVE BERKE

preneurial Studies and Center for Leadership Development and Research teamed up to bring Kuhse to campus to speak about his experiences. He related how after his initial business successes, he was eager to make more money faster and became involved, through a friend, in a kickback scheme with an official responsible for investing the reserves of the state of Oklahoma. They were exposed by a whistle-blower who contacted a television program, and after a life on the lam that cost him his family, he eventually gave himself up and served a federal prison term.

Kuhse cautioned students against thinking they are entitled to anything and against blaming external circumstances for unethical behavior. He also warned against justifying anyone's actions by saying "Everybody is doing it." As you climb the corporate ladder, he added, "make sure it's leaning against the right building."

Fueling the Future

Alternative energy "has been the technology of tomorrow every day for the past 20 years," Andrew Beebe, president of Energy Innovations, told an audience at the inaugural Business School Energy Conference.

The search for alternatives to fossil fuels could rival the Internet boom of the 1990s in terms of opportunities for investors and entrepreneurs, Beebe said. "First of all, this is a business in which you're making products. It's a very tangible business with revenues that are relatively easy to track, unlike many of the Internet companies that sprouted up in the 1990s."

Even conventional extraction companies are looking for unconventional resources such as coal bed methane, oil sands, and deepwater oil and gas. "Unconventional energy resources will become the conventional resources of the future," predicted Charles Williamson, chairman and CEO of Unocal Corp. "I can't think of an industry where more complex commercial and technical issues come into play," he said. "This is an old industry, and we desperately need innovators in this business to replenish the talent we're losing."

"We're finding ourselves in uncharted territory where energy is concerned," said Matthew Simmons, chairman and CEO of Simmons & Co., a Houston-based investment banking firm focused exclusively on the global energy industry. "If we don't meet this challenge," he warned, "the world will be a darker place, and we'll wonder why on earth we waited so long."

Suspended Reality at Virgin Airways

Gabriel Baldinucci tried to catch billionaire Sir Richard Branson over a 350-foot gorge in Zimbabwe. Unfortunately, he dropped him.

But the risk-taking founder of Virgin Airways was secured by a rope and bounced back. So, too, did Baldinucci, MBA '00, who made it to the surprise ending of Branson's so-called reality TV show *The Rebel Billionaire,* in which 16 entry-level entrepreneurs pitted brains, brawn, and brio for $1 million and a position with Branson's Virgin Group.

Contestants competed in business challenges on four continents. After each contest, members of the losing team faced a physical challenge intended to eliminate at least one of them from the show.

Literally left on the tarmac when his teammate got spacesick and couldn't finish the commercial they were filming, Baldinucci came back for the finale and was chosen by the winner to assist in running one of Branson's companies for three months. He started in February.

Getting to know Branson validated something Baldinucci

WINGING IT: *Airline and record magnate Richard Branson, left, with Gabe Baldinucci, MBA '00.*

Spreadsheet

yesterday

The 254 members of the MBA class of 1968 received their diplomas while gathered around the swimming pool of Dean Ernie Arbuckle and his wife, Kitty. School graduation ceremonies were held at the Arbuckle home for the classes of 1966 through 1968.

believes about business. "You don't have to be harsh or a jerk to be a leader. Richard is wildly successful, yet he rules with love, not fear. He trusts people." No doubt about that. He trusted Baldinucci enough to leap into and out of his grasp over that gorge in Zimbabwe—and then kept him in the game.

Alum Ambassadors Assist Admissions

WHEN LISA HERSCH was in Sydney looking for an MBA program, she knew nothing about Stanford or its business school. Then she met fellow Australian Tracy Francis, MBA '02, who sold Hersch and helped her through the application process.

Hersch, MBA '04, is a charter member of the ambassador program of the MBA Admissions office. Ambassadors help attract and recruit prospective students, interview candidates, and enroll applicants who have been admitted.

Alumni/ae have long worked with Admissions on an ad hoc basis. Lane MacDonald, MBA '95, has been involved for years: interviewing applicants, serving as a panelist at Admissions events, and hosting a reception for admits at his Boston area home. "I had such a great experience at the GSB that it is easy to be an ambassador—although that seems like a relatively formal title for what we do," MacDonald says.

What they do varies with the preferences of the volunteers and the needs of the Admissions office. Some ambassadors email prospective students or attend dinners for admits. Others expend many hours, as Hersch did last summer when she planned, organized, and delivered a Business School information session in Sydney that drew prospects from all over Australia to meet alums from MBA classes spanning 25 years.

"For many prospective applicants, admission to the GSB seems unachievable. I feel it is important for them to realize that people like themselves have been successful in applying," Hersch says.

Says MacDonald: "Being an ambassador has been a great way to stay connected to the School and the students." More than 500 alums have expressed interest but more ambassadors are needed, especially in Europe, South and East Asia, South America, and Australia.

To learn more about the program, go to the School homepage at *www.gsb.stanford.edu,* and select the MBA Admissions Ambassadors program. Or call the MBA Admissions office at 650.723.2766. ■

QUOTABLE

"If there is a threat to the global economy—or to global growth—it is that the price of oil is extremely high."

— Citigroup Vice Chairman Stanley Fischer, speaking to students in January, after accepting an appointment as governor of the Bank of Israel

 | BY DAVID GOODMAN, MBA '71

A Call to Action for Energy Independence

Just as they increased awareness through the Civil Rights Movement, Americans need to become more energy-wise to free the country from the political consequences of relying on foreign oil.

KEN ORVIDAS

FATHER'S DAY ARRIVES at a bittersweet time every year for the Goodman family. Last year, for example, it fell on June 20, one day short of 40 years since my older brother, Andrew, was kidnapped and murdered by the Ku Klux Klan in Neshoba County, Mississippi. Our family has tried to make sense of our personal loss that occurred on June 21, 1964, by focusing on the power it had to galvanize the American public. As a result of the death of my brother and two other young men who were trying to register African American voters, a great majority of the American people woke up to the terrorism and oppression that were the order of the day in Jim Crow Mississippi and other areas of the country. I accompanied my mother to Mississippi to commemorate that anniversary last Father's Day, and I am happy to report that the Klan no longer rules in Mississippi. We saw evidence that African Americans and Euro Americans are working together to bring democracy, prosperity, and, hopefully, justice to their communities there. This year, local officials are pursuing a murder conviction in the four-decades-old crimes.

But today terrorism and oppression are center-stage on the international scene. I believe that it is important for us to recognize that the same sense of being *right* or *righteous* that motivated some citizens in Mississippi to commit brutal murders is operating today in the terrorist threat. Again, it is incumbent on the majority of American citizens to wake up and realize that it is within our power to shift this situation. The question we must each ask ourselves is: "How are we to accomplish this?" We must stand up to terrorists, stop their unholy acts, and reveal their inhumanity. Can we do so by waging a war? I believe that we must find another way.

I propose that the first step is to rid ourselves of blame and consider how to assume responsibility on a personal level. The newspapers and airwaves have been full of what is wrong in Iraq and whose fault it is. Opinions vary greatly about who is to blame. Although it is tempting, I am not preparing a discourse blaming President Bush. Our current predicament includes the petropolitics that has gotten us in trouble energy-wise, particularly with the Muslim nations, long before this presidency. Blame is convenient because it gets us *off the hook,* and we can excuse ourselves from taking corrective action.

The second step we can take is to wean ourselves from oil and gain greater independence from our Persian Gulf oil suppliers. The most effective step in this direction is to buy and promote the use of hybrid electric vehicles that get more than twice the gas mileage of regular vehicles. This is a subject I have focused on professionally for the last decade as an outgrowth of my work as CEO of United American Energy Corp. I started the company in 1980 to build, own, and operate electric power generating facilities. With engineers in that company, I got involved in trying to build my own electric vehicle in the late 1980s, and now I am part of an investor group that, along with management, controls and owns the ISE Corp. in San Diego, a 10-year-old company that designs and builds more models of big hybrid electric vehicle propulsion systems than any other U.S. company. Its products include big municipal transportation buses, Mack-type trucks, garbage trucks, and military vehicles. We offer gasoline, diesel, CNG, and hydrogen fuel cell and hydrogen internal combustion engines as options. These vehicles are between 20 to 50 percent more fuel efficient than conventional diesel buses and emit a fraction of the pollutants such as nitrogen oxides. These hybrid electric vehicles can also operate on all-electric propulsion (without the engine running) when quiet operation or zero pollution is required, such as in congested areas or underground and tunnel environments.

The U.S. population of 290 million people consumes 20 million barrels of oil per day. This means with less than 5 percent of the 6 billion-plus world population, we consume

What if, instead of waiting for the government or industry to fix things, we voluntarily made some changes in our consumption habits?

about 25 percent of the world's oil energy, or over 500 percent more oil energy per person than the rest of the world. Consider the implications if each of us were willing to shave just 20 percent off the top of our consumption: about 1.5 billion barrels per year. Converting the U.S. fleet to hybrid electric vehicles can accomplish this savings. At $46 per barrel, the savings translate to over $69 billion, an amount greater than President Bush's first tax cut, which supposedly stimulated our present economic recovery. Imagine what saving $69 billion of foreign exchange would do to positively impact our domestic economy now.

What if, instead of waiting for the government or industry to fix things, or a national catastrophe or oil shortage to propel us into action, we voluntarily made some changes in our consumption habits? Why is it that, despite knowing that inefficient gas guzzlers pollute our environment and create geopolitical havoc, we continue to purchase non-hybrid SUVs and Hummers rather than hybrid vehicles? The most powerful thing you can do at this time to protect the environment, increase our nation's energy independence, improve our homeland security, and lower our international trade deficit is to buy hybrid vehicles.

In addition, you can let the presidents of Ford, GM, and Chrysler know that you want them to produce nice, comfortable, reliable American hybrids. Then write your representative and senators and insist that Congress raise the national fuel efficiency standards and stop allowing heavy SUV vehicles, like the Hummer, to be exempt from such efficiency standards because they are over 6,000 pounds.

Some of you may be thinking that because I have a stake in a company producing hybrid vehicles, I am writing this to make money. I'm a graduate of the Stanford Business School, after all, and I've never minded making money. However, I got involved with hybrid vehicles because in my past ownership of energy plants, I came to realize that a more reasonable energy use in this country was a critical legacy for your grandchildren and mine, and necessary for a more peaceful world in this century.

Forty-plus years ago, my brother Andrew expected to be making a modest contribution to ending oppression not only in the Deep South but in the whole country. I still wish his had been as modest as he planned, but none of us can deny it was not Congress or the president that delivered this country from a previous brutal terrorism. Many Americans besides my brother changed their priorities somewhat and took actions within their power to take. The lesson is that we can all influence the economy, the environment, and the safety of the world. At this time, it might be mostly about spending our dollars wisely. Hybrid vehicles can become even better, but they are already comfortable and efficient, and they will help make the world a safer place. ■

David Goodman, MBA '71, is one of three principals in North Arrows LLC of Upper Saddle River, N.J. From 1980 to 2003, he was CEO of United American Energy Corp.

Tsunami on Koh Phi Phi

Swept across the island by a wave five times her height, Laura Wales' nightmare had only begun.

SINCE HIGH SCHOOL I HAVE HAD A FEAR of tsunamis. I'm not sure what triggered it since I had never had a terrible experience with the ocean. It was just my thing. Some people are afraid of plane crashes or spiders; I am afraid of tsunamis. On the Singapore–Thailand study trip with other Business School students during the December break from classes, I told Professor Andy Skrzypacz about my fear and asked him to calculate my risk of dying in a tsunami. He laughed and told me, "Less than zero percent."

On December 23, after the study trip, Stephan Zech, Lorri Elder, James Hsu, Bonnie Liu, and I went to Koh Phi Phi, a tiny island off Phuket, while other members of the Class of 2005 headed to their homes or other destinations. Bonnie and James checked into the three-story Banyan Hotel on the south side of the island, while Lorri, Stephan, and I stayed in a bungalow at the Phi Phi Charlie Resort on the north side.

For three days we enjoyed ourselves. On Christmas Eve there were fireworks on the beach, and James and I made Christmas resolutions. Christmas Day passed uneventfully, except that Lorri left to join her family in Hawaii.

On December 26, I woke at 8:15 to insistent pounding on the door. It was our classmate Natalia Carvajal coming to get Stephan. Natalia was not on our study trip but was spending winter break on Koh Phi Phi because her boyfriend, Hein, was a diving instructor there.

Stephan had signed up for a diving certification program and was supposed to have met the group at 8. He jumped out of bed and looked wildly around the room: His clothes and toiletries were strewn all over the bungalow. We were supposed to check out by 11, and Stephan's dive would last until after 3. "Don't worry; I'll pack for you," I mumbled before falling back to sleep.

Around 9:30 I woke again, showered, and started packing. About an hour later James knocked on the door. I asked where Bonnie was. He explained she had opted to hang out by the pool at their hotel until we left. We continued chatting as he helped me finish packing Stephan's belongings.

Suddenly a ferocious wind hit the bungalow, rattling the

GETTY IMAGES

When it receded, I lay down on the shifting rubble and realized if another wave came, I wouldn't have the strength to stand up again. I was exhausted; all I wanted to do was close my eyes and sleep.

window. At the same moment, the overhead light went out. I looked out the window in time to see water rushing around the bungalow in front of ours. It appeared to be just above waist level and was moving with a velocity and roar I'd never seen or heard before. I knew instantly what it meant. "Oh my God, it's a tsunami!" I yelled to James as I grabbed his arm and jumped on the bed, pulling him up after me. Unfortunately, the water wasn't just waist deep. What I saw must have been the very beginning of the 20- to 30-foot wave behind it. When the wave hit our bungalow, I was ripped apart from James and didn't see him again.

I've never felt anything like the force of that wave. The blow felt like a solid object striking every area of my body simultaneously. I was thrown backward as the bungalow's roof and walls crashed on top of us. Everything appeared dark and I was pinned down by the debris and weight of the water, unable to move any of my limbs. This must have been when my legs were gouged by pieces of the building, but at the time I was aware only of a general crushing sensation throughout my body.

My first thought was that it must be one of my dreams. But I quickly realized that it was real and my chances for survival were slim. I had been under water a few minutes; I couldn't see my surroundings, and I couldn't move anything except my head. The crushing sensation intensified in my chest, and I knew if I didn't get air I wouldn't make it much longer.

If I had to die, I didn't want to die scared and struggling. I thought about my family and how much my death would devastate them. In my mind, I repeated over and over to my parents, "I'm so sorry, I love you, I'm so sorry." Then I opened my mouth and started inhaling the water. I wanted the pain to stop and after a moment it did. As water filled my lungs, my vision went from dark to pure white. The weight of the water seemed to disappear and I felt light again. I was a moment away from either unconsciousness or death.

Just then, something that was holding me shifted. I gave one instinctive kick with my left leg and my head was above water. I gulped a breath. The strong current grabbed me and pulled me across the small island. I struggled to stay above the river of water and wasn't aware of where I was or what was happening around me.

At one point I saw a building ahead. Most of the bottom floor had been washed away and water was racing through the newly created tunnel. The northern walls also had been knocked off, so that I could see straight into a hotel room. A Thai man in a blue shirt was standing in the room right in front of me, so I threw up my arm and he caught my hand. Another Thai man ran to his side and took my other arm. I looked up at them and cried, "Please hang on; please don't let go," but even as I pleaded I could feel my hands slipping away. They tried to get a better grip, but the current pushing me was too strong and they had to let go of me in order to avoid being pulled into the water. I hope those two men know I'm alive, so they don't feel guilty they didn't rescue me.

I was swept under the hotel before the wave died and I washed onto a pile of debris on the beach. I immediately vomited and coughed up water and sand. My contacts were gone and my ears packed with sand, dulling my senses. My shoes and jewelry had been ripped off, but miraculously my bikini and sarong had stayed perfectly in place. I looked around for somewhere safer to rest. Nearby, a few feet of wreckage had piled around a palm tree. A Thai man stood on the pile, hugging the tree. I started making my way there, half walking, half crawling over pieces of boats, roofs, bicycles. The man pointed at my legs and shouted something in Thai. I looked down and saw that a section of my right leg was hanging, held on only by a small area of skin. When I finally made it up to the tree, the man turned and left. I don't know why.

By this time my body had gone into blissful shock, so the pain and bleeding were subdued. The worst of the injuries was on my right leg, where about a fourth of my shin was gouged out. I could see 6 inches of exposed bone. My ankle was also gouged and was swelling like a melon. I took the muscle and skin that was hanging off my shin and pressed it over the exposed bone. I tied it in place with my sarong, although the water and blood made the sarong slip off the first few times I tried.

From somewhere, I heard an Australian woman shout, "Hang on; there's another wave coming!" I struggled up and bear-hugged the palm tree. Luckily this was the third wave and I was now on the sheltered side of the island. The wave pushed debris hard into my back but didn't reach over my head. When it receded, I lay down on the shifting rubble and realized if another wave came, I wouldn't have the strength to stand up again. I was exhausted; all I wanted to do was close my eyes and sleep. But I'd read

Days before the tsunami struck, second-year classmates Lorri Elder, left, Bonnie Liu, center, and Laura Wales took an excursion off the coast of Koh Phi Phi in Thailand.

The next thing I remember it was morning, and I was lying on a hospital bed with both my legs bandaged from knee to toe. My hair was still matted with sand and when I coughed, bits of sand came up with the phlegm.

enough to know that falling asleep while in shock could be a death sentence, so I struggled to stay awake. I remember looking at what I was lying on—some pieces of wood with rusty nails sticking out—and being grateful I'd gotten all of the recommended shots for travel. They were so expensive I had nearly rolled the dice and gone without them.

Every few minutes I would yell, "Help!" or "Doctor!" and in the distance I could hear others doing the same. I'm glad now my contacts were washed away, because I couldn't quite make out the death and destruction around me. The extent of the tragedy and the need for rescue resources elsewhere never occurred to me.

After about an hour, a few uninjured Westerners came down to the beach and I called out to them. They created a sling from some fabric they found on the beach and half dragged, half carried me to the second floor of a nearby hotel. They put me on a bed next to a woman whose blood had already soaked the sheets and who didn't say a word the entire four hours I lay next to her.

A group of expatriates took turns taking care of us and going down to the beaches to help other survivors. One man tore up sheets and re-bandaged my leg. I allowed myself to be comforted by their cheerful assurances that everything would be all right, despite the fact I could hear them crying once they left the room, wondering about their own loved ones.

Finally we heard the sound of a helicopter. The evacuation zone was on the opposite side of the island, so they had to carry the injured through streets that were sometimes piled 4 feet high with debris. The men found a park bench to use as my stretcher. The trip took over an hour, although it could normally be done in 10 minutes. Somewhere along the way I heard Hein's voice and called out to him. He came over and assured me that he, Natalia, and Stephan were all uninjured. He helped carry me the rest of the way, got me settled, and went off to help other survivors. My leg was still wrapped in ripped sheets, but the medics were worrying less about cleaning wounds than prioritizing who would take the limited spaces on the helicopter to Phuket. Sometime after dark Stephan and Natalia showed up at my side. I've never been so happy to see friends.

They took turns taking care of me while the other helped load patients into the helicopter. We were able to smile and crack jokes, but behind our smiles was our fear for James and Bonnie. I was especially afraid for James. My escape was so narrow, and when James didn't appear at the evacuation zone I was certain he didn't make it. I felt guilty for lacking faith, especially when others reassured me he was surely OK and that lots of people were still being rescued. I tried to keep my spirits buoyed by hope and prayer, but the hope felt fake and hollow.

At last a medic looked at my leg and realized it was worse than previously thought. And Stephan, being a champion marketer, pointed out my ragged breathing. When the medic listened to my breath, he decided to put me on the next helicopter. I hated to leave without Stephan and Natalia, but they promised to find me in the hospital the next day in Phuket. Little did they know, the helicopter took us to Krabi instead.

When I arrived in Krabi, my legs were operated on while I was still in the lobby of the hospital. A nurse cut off my bikini and threw a hospital gown over me while a doctor unwrapped my legs. Every square inch of the lobby seemed to be packed with doctors, volunteers, or patients. Next to me, a man shrieked at the top of his lungs as a doctor poured disinfectant (I assume) into a hole in his arm. The next thing I remember it was morning, and I was lying on a hospital bed with both my legs bandaged from knee to toe. My hair was still matted with sand and when I coughed, bits of sand came up with the phlegm.

Krabi seems like a bad dream. I realized later how lucky I was to have had a bed, but I didn't know then about all the patients who were on the floor. I was lonely and had no idea how or when I would get out of the hospital. Fortunately, the people around me were amazingly kind. One woman brought in her cell phone so I could call my family. When I finished talking she took the phone and told them—out of earshot—to get me out of the Krabi hospital, whatever the cost. She could see, better than I, the inadequacy of the care I was receiving.

Back in the United States, my friends and family were panicked and trying to figure out a plan of action. Finally my mother got in touch with my classmate Bryan Gaw who was in Bangkok. He did some research on medevac companies and got on the next possible flight to Krabi. At the hospital, he walked up and down the rows of beds, searching for me. I was so bloated from the saltwater and matted with blood and sand he walked by me twice before a nurse helped him identify me.

Bryan stayed with me for the rest of the day and that night. He brought news that Bonnie was safe and James still missing. He arranged for me to be transported to Bumrungrad Hospital in Bangkok. The group had visited Bumrungrad as part of the study trip and learned it is regarded as one of the top private hospitals in Southeast Asia. Bryan and I, along with 10 other patients and various doctors, flew to Bangkok at dawn the next morning.

At the ICU at Bumrungrad I was diagnosed with pneumonia and septicemia (blood poisoning). Septicemia is a quick killer if left untreated, so I would have been in trouble if I'd remained at Krabi. My days took on a bizarre routine. Every morning I went to the operating room, where I was put under so the surgeons could treat my leg wounds. Every afternoon a physical therapist would hit my back rhythmically, helping me to cough up the sand that still plagued my breathing.

Bryan stayed with me until my mother arrived two days later. On January 11, she and I and a doctor flew back to California. I was met by an ambulance that took me straight to Stanford Hospital.

As I write this, I am out of the hospital. As soon as the wound has enough muscle tissue growing in it, I will receive a skin graft. By the time you read this, it should be as though I was never in the tsunami.

Except, of course, for the scars … on my legs, arm, and stomach, not to mention in my heart. ■

James Hsu has not been found. Classmates have raised about $100,000 for the Red Cross in his memory.

ROBBIE MCCLARAN

Lifeline Communicator

GREGG SWANSON, MBA '88

A FORMER U.S. AIR FORCE officer and fighter pilot, Gregg Swanson went to business school to start a second career. Now he's on his third. After 15 years in high tech in California and Oregon, Swanson is founder and executive director of HumaniNet, a nonprofit he describes as a virtual help desk that gives practical communications assistance and advice to humanitarian organizations in the field.

Swanson was director of technology for Northwest Medical Teams, a volunteer organization in Portland, when shortly after 9/11, it sent a team to Afghanistan. "Being an old military dude, I said, 'Well, how are these people going to communicate?'" Remembering that Motorola had introduced a satellite phone called the Iridium, Swanson tracked one down and sent it with the team. It worked.

"What struck me was there was no one place for organizations like these to go for practical help," Swanson says. "Different nongovernmental organizations had bits and pieces of information, but no one was putting the jigsaw puzzle together for the nonprofits." At the same time, he notes, "There are a lot of people in technology who want to make a difference, but they don't know how to be involved."

HumaniNet puts the pieces together. Operating out of his home office in Oregon, Swanson receives orders for equipment and answers questions about communications from humanitarian organizations all over the world. "There are people we hear from who don't know what a computer virus is," he says. "They're standing in the middle of Mauritania and don't have any staff." In return for its help, HumaniNet asks them to share what works.

Swanson is assisted by volunteer experts based as close as Portland and as far as Nepal and by technology companies that are willing to loan equipment or lease it at low cost. Together, aid workers and missionaries, tech experts, and companies are building a network that is ready to help humanitarian organizations everywhere.

When the devastating tsunami hit the Indian Ocean in December, HumaniNet provided mobile communications within 24 hours. By the end of January, it had equipped more than 50 teams in Indonesia and Sri Lanka and was delivering information to more than 70 organizations. Its contribution was profound. As one team manager in Banda Aceh put it: "Please send the equipment quickly. It is our lifeline."

— JANET ZICH

Indian Dreamer

FARHAD FORBES, SLOAN '91

IN 1980, LIFE WAS GOOD for Farhad Forbes. Armed with two Stanford degrees in electrical engineering, he landed a job in research and development at the legendary Silicon Valley company Hewlett-Packard. But a funny thing happened on his way to the American Dream.

Forbes attended a lecture on campus by Nani Palkihwalla, then Ambassador to the United States from India, who exhorted Indians in the audience to be proud of their homeland and return to make a difference.

Forbes returned to work in the family business, an engineering company that specialized in energy conservation and process-control instrumentation. When he took on more general management responsibilities nearly a decade later, he returned to Stanford to pick up added skills in the Sloan Master's Program.

The concept of giving back to the community was familiar to him since it had been practically mixed into the soil at the company founded by his father, Darius, and grandfather J. N. Marshall. "When we set up our factory here in Pune, the land we were on was actually farmland," says Forbes, managing director of the company now known as Forbes Marshall. "The initial contribution we made to the people at that time was to provide employment."

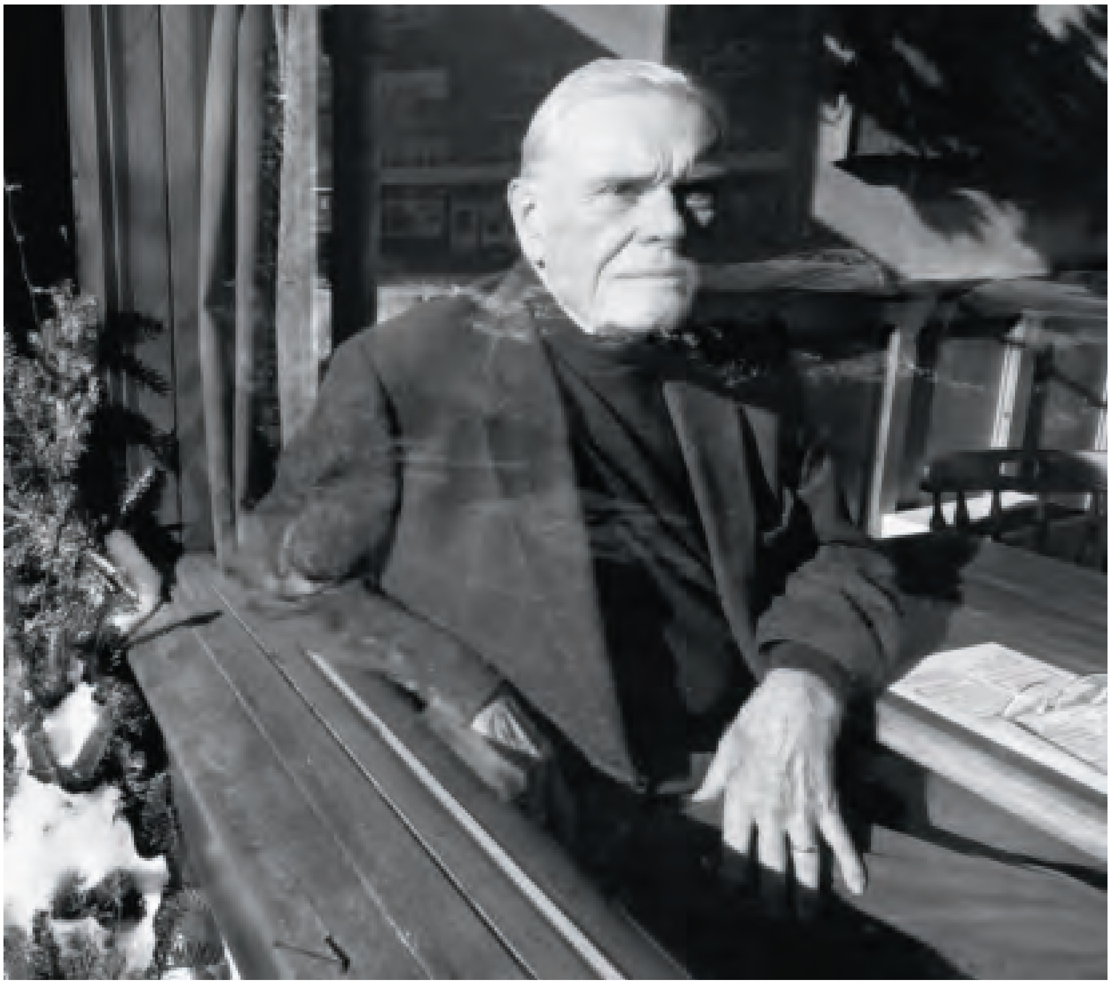
As the company expanded, so too did its community programs. Initiatives serving area residents beyond the families of its 700 employees include free health care dispensed by a 35-bed hospital, 2 pre-primary education centers attended by 80 children, 30 self-help microfinance women's groups and—the latest enterprise—a job training operation for underprivileged youth that in its inaugural class placed 80 young people in service jobs throughout Pune, an industrial city outside of Mumbai.

In the 22 years since his return, Forbes has helped the company grow 20-fold. "We established ourselves as one of the leaders in this business in India, with an increasing global presence, and we are an Indian company that did it. We showed that we can compete with the best in the world," he says.

What gives him the most satisfaction is the knowledge that he has made a much greater difference in India than he would have made in America. "I found it was possible to make a contribution at a much more basic level here," he says, "and I think we've seen the rewards of making some impact on the people and the community in which we operate. We see that as very much the role of business." —HELEN K. CHANG

The Accidental Spy

Losing his family to the Nazis, German-born Klaus Schmidt rebuilt his life in the Bay Area and also found himself gathering intelligence behind the Iron Curtain.



Klaus Schmidt, MBA '53, in Bangor, Maine

MARK MCCALL

REAL SPY STORIES ARE MORE BIZARRE than the plots of novelists, a former CIA inspector general wrote last year. That is apropos of the story Klaus Schmidt tells in his autobiography, *A Spy for Life* (AuthorHouse, 2004).

Schmidt, MBA '53, is better known in the San Francisco Bay Area as a former dean and professor at the business school of San Francisco State University. In that position he tried to develop international friends to further the school's goals. His contacts in East Germany and the Soviet Union led the U.S. government to ask him to be a conduit for information in the 1970s and 1980s, and he eventually was asked to negotiate with Soviet officials on a troop withdrawal from Afghanistan.

Schmidt's life of international intrigue begins, however, with his childhood in Hitler's Germany, where he was the son of an industrialist whose factory was converted to making fuses for Hitler's war machine. At first his family of four lived well in a huge house, but as the tide turned against Germany, his parents were forced to take in boarders and often did not have enough to eat. A sense that his parents' marriage was on the rocks, along with Allied bomb drops, brought on panic attacks in the young Schmidt that have recurred throughout his life.

In 1944, fearful that Hitler's henchmen were looking for scapegoats for war failures, the Schmidts plotted a winter escape that ended in tragedy. Swiss border guards forced Klaus' parents, brother, aunt, and uncle back into Germany on foot. They were captured by the Gestapo and eventually executed, with the exception of the uncle, who escaped. Klaus, at 14, was left standing at the border in charge of his younger cousins.

After the war, the United Nations took possession of refugee records from Switzerland. "I spent a lot of time researching, but there is no record of my parents ever having crossed into Switzerland," Schmidt says. "The most plausible reason they were turned away, the one that I hypothesize in the book, is that they thought my father was really Messerschmitt, the Mr. Boeing of Germany, and since Hitler was not entirely rational, they feared what Hitler would do if they let him in."

After Schmidt became a U.S. citizen, he was asked by the East German government to make repairs on his parents' home behind the Iron Curtain in Eisenach. In vivid detail he describes crossing the heavily fortified border and visiting his family's home and graves. On another trip his U.S. intelligence contacts asked him to spy on a military unit.

"Behind a wire fence were somewhere between 35 and 40 tanks. Many had a track removed, some had no turrets, and a pile of engines rusted on our right. Two cranes held what had to be new replacement engines in the air. This did not hit me as a quick-strike-ready force. Not one mechanic in sight, working or smoking. Nobody."

Later during his negotiations with the Soviets, Schmidt witnessed some shortcomings of his adopted country.

"We reached a point where we knew pretty well the Soviet troop strength and how long a pullout would take. My Russian contacts basically agreed, but then my instructions became more stringent," Schmidt recalls from his retirement home in Maine. "I got a call from the White House and was told we had to let the negotiations fail because there was an election and if it looked like we had appeased the Russians, it would weaken President Carter's campaign. This question of political survival affecting what we do was extremely disturbing to me then and still is today."

When Ronald Reagan won the election, Schmidt says, a high-ranking official at the Russian Consulate asked to meet at a Union Street café in San Francisco. "Are we going to war?" he recalls the official asking. "I said 'No, during an election we talk big, it gets very blustery, but I don't see any danger Ronald Reagan is going to get on his white horse.' The Russians could not grasp that election rhetoric is different from reality."

Given the darkness in his life, Schmidt works hard to cultivate humor, and that shows in many places in his book. At one point, he describes entertaining the East German ambassador, who comments on the hot fashion of blue jeans. "Of course, we make our own, but the people want Levi's," the ambassador says. Schmidt counters with the obvious—that Levi Strauss & Co. is headquartered in San Francisco and offers to call its chief executive, Walter Haas. Despite East Germany's desperate shortage of hard currency, Schmidt writes, the ambassador ordered 10,000 pairs.

The Business of Words

Victoria Chang taps her business background to mix prose and verse in a dual writing career.

VICTORIA CHANG, MBA '98, lives a dual professional life. On the one hand, she's a researcher for the Business School, using her business training to interview executives at firms and nonprofit organizations and describe the results in case studies for use in the School's curriculum. On the other hand, she's a successful poet and literary editor, with one highly praised anthology under her editor's belt and another book—her own creative work, already garnering prestigious prizes—to be released shortly.

Chang's recently released poetry anthology, *Asian American Poetry: The Next Generation,* published by the University of Illinois Press, celebrates the work of 28 young poets of Asian descent.

The poetry of what Chang calls the first generation of Asian Americans was primarily about culture, identity, family, politics, and ethnicity. But with the second generation—the work of the poets collected in the anthology—anything goes, she said. They tend to be bolder about previously taboo subjects such as sexuality, and write less about ethnic or political issues, instead taking on more mainstream American themes. "The community is much more diverse than I had originally thought," she said.

Chang's own book of poetry, titled *Circle,* was published this spring by the Southern Illinois University Press after winning first prize in the Crab Orchard Series in Poetry Open Competition, the way that many, if not most, first books of poetry get published today. Her poetry also has been published in *The Nation, Poetry, Threepenny Review, Kenyon Review,* and the *Virginia Quarterly Review.* One of her poems was selected to be included in poetry's biggest anthology, *Best American Poetry 2005* (Scribner).

After earning a bachelor's degree in Asian studies at the University of Michigan and a master's in Asian studies at Harvard, Chang worked for Morgan Stanley in investment banking and Booz Allen & Hamilton in management consulting—"the traditional corporate jobs, the things that MBAs do," she said. But she continued writing poetry and taking poetry workshops.

Upon receiving her MBA, she went to work for Guidant, a medical device company, and then an Internet company that didn't survive the dot-com crash. Four years

Victoria Chang, MBA '98, in Tustin, Calif.

PETER STEMBER

Recently Published

Designing Strategic Cost Systems: How to Unleash the Power of Cost Information
LIANABEL OLIVER, MBA ’78
John Wiley & Sons, 2004
A guide to designing, developing, and implementing a strategic cost system that takes into account the needs of its users and the maturity level of the organization.

Diccionario LID de Empresa y Economía, 10a Edición
MARCELINO ELOSUA, MBA ’81, ET AL.
LID Editorial, 2003
First published in 1983 by the Stanford Business School Alumni Association, the English-Spanish dictionary of business terms in its 10th edition contains more than 10,000 entries.

Search: Winning Strategies to Get Your Next Job in the Nonprofit World
LARRY SLESINGER, MBA ’80
Piemonte Press, 2004
A guide for people interested in working for nonprofit organizations, including foundations.

Free Prize Inside!: The Next Big Marketing Idea
SETH GODIN, MBA ’84
Penguin Portfolio, 2004
How to create and champion the innovative ideas that make products and services so remarkable they practically sell themselves.

Journey: The Travels, Tragedies, and Triumphs
CHARLES V. MCAVOY, SEP ’68
Xlibris, 2001
The autobiography recalls memories of a small-town childhood, military service, family life, and a rise up the corporate ladder.

The Internal Economy: How to Apply Market Principles Within Organizations to Make Sense of Budgeting, Rate-Setting, Project-Approval, and Accounting Processes
N. DEAN MEYER, MBA ’76
NDMA Publishing, 2004
A guide to applying market economics inside companies to solve a range of resource management and governance challenges.

The Love Wife
GISH JEN, CLASS OF 1980
Knopf, 2004
In this comic novel about the realities of mixed-heritage families, “Blondie”—the Caucasian Jane—suspects that the Chinese nanny arranged by her immigrant mother-in-law may have been sent as a concubine, or “love wife.”

The Marketing Playbook: Five Battle-Tested Plays for Capturing and Keeping the Lead in Any Market
JOHN ZAGULA AND RICHARD TONG, MBA ’87
Penguin Portfolio, 2004
The coaches who designed this playbook tested and perfected their system as marketing executives at Microsoft and as venture capitalists.

Three Rivers Form an Ocean: Vignettes of Life in Charleston, S.C.
JAMES FUNK, MBA ’68
AuthorHouse, 2003
The author and his wife learn of the city’s rich history and become avid tellers of it themselves as they restore a c.1850 carriage house.

Inspired by the Devil: Part 1—The Gospel According to Judas Iscariot
JOSEPH M. LUGUYA, SLOAN ’75
Original Books, 2004
In this novel, the fictitious author of a thesis on “Original Virtue” offers an African perspective of spirituality in general and Christianity in particular.

The Virgin: A Novel
ERIK S. BARMACK, MBA ’01
St. Martin’s Griffin, 2005
The hot new reality TV show is titled *The Virgin* in this novel about popular culture’s infatuation with making the private public.

Improbable
ADAM FAWER, MBA ’98
Harper Collins, 2005
An experimental drug to help with his epilepsy allows protagonist David Caine to see several futures, and he has to decide which one should take place in this thriller.

True Faith and Allegiance
PETER P. BOOTH, MBA ’65
Trent’s Prints, 2004
A memoir by a retired U.S. Navy rear admiral that covers three decades of the Cold War and includes a short chapter on his GSB experience.

Philanthropy, Heirs and Values
ROY WILLIAMS AND VIC PREISSER, MBA ’64
Robert D. Reed Publishers, 2005
The authors discuss successful uses of philanthropy to teach heirs how to carry on successful familial philanthropy.

ago, she accepted a job as a case writer at the Business School, something that has turned out to be “a really wonderful experience,” she said. “I have to be very professional and talk the talk, think very quickly on my feet, and efficiently encapsulate a company’s environment and strategic issues. All the things you learn to do in business school I’ve been able to apply to writing case studies. It’s also very intellectually stimulating, and I’ve always enjoyed that aspect more than the actual practice of business.”

Chang also appreciates the flexibility of working from home and notes that the eminent poet Wallace Stevens worked as an insurance executive. “I think there’s a misconception that you can’t simultaneously be interested in business and be a poet or do something creative,” she said.

“I’m not a traditional MBA,” she added, “but I learned so much at Stanford and met the most interesting people, and was inspired by the quality of the professors and senior managers and everyone around me. You learn things that you never forget your entire life, no matter where your career path and life goals take you.” ■

—ALICE LAPLANTE

Limits, BY VICTORIA CHANG

The brown-headed cowbird sleuths like a witch
between oaks, drops its eggs into the nests
of other species. Its larger chick hatches earlier,
lifts its beak for the edge of beetles, legs of cicada,
mantids, mayflies. Its black body bulges
like a sunset, pushing other chicks to the ground,
thumps mistaken for ripe acorns. If f(x)=x_,
then the limit and the heart, clear and finite.
But what if $f(x)=\frac{1}{x-3}$ and x=3? Then the heart
never stops wanting, spinning into infinity.
Let x be a moon in Andromeda’s spiral, let a
Chinese peasant shoot for its nucleus, let him
stretch the bow and arrow, turn his lingering hurt
into meat, that is, until he aims directly at your heart.

“Limits,” published in Circle *(Southern Illinois University Press, 2005)*

 BY NANCY EVANS

Reinventing Drug Development

America's health care system is broken, drug development takes too long and costs too much, and the FDA needs major reform.


CELIA JOHNSON

Better prediction of the potential benefits of new drugs and their potential harm remains an unfulfilled promise of biotechnology, speakers from the industry said at the sixth annual Health Care and Biotech Symposium at the Business School in January. Using pharmacogenomics to identify biomarkers that have true predictive value would shorten development time, speakers agreed. So would focusing more resources on larger Phase 1 trials to maximize the collection of biological information early on.

The United States also needs a better system for reporting health problems with new drugs after they are approved, said keynote speaker Donald Kennedy, editor of the journal *Science*, a former commissioner of the Food and Drug Administration, and president emeritus of Stanford University. The program was organized by the student Health Care Club.

The cost to develop new drugs is in the range of $1.2 billion each. Philip Pizzo, dean of Stanford's School of Medicine, asked biotech executives on a panel for an explanation.

"The main reason drug development is expensive is that it's so unproductive," James Sabry, CEO of Cytokinetics, responded. "The chance of finding a drug is small. The chance of finding an innovative drug is smaller. We're developing drugs like we did 10 or 20 years ago when outcomes were hard to predict," Sabry said.

Focusing on smaller markets with unmet medical needs also can reduce costs, some say. "What it costs to reach the key decision makers—those who treat cancer—is much less than trying to reach a broader general market," explained William Ringo, CEO of Abgenix. "Oncology is an example of lower-than-blockbuster cost of reaching a market."

The panel also talked about the price of drugs and the fact that U.S. investment in drug development subsidizes lower prices in countries such as Canada. "The little secret was that big pharma made pacts with other industrialized countries to not have them pay [for research and development] because sales to those countries get manufacturing up and increase profits," explained Corey Goodman, CEO of Renovis. Thanks to public Internet access, that arrangement has unraveled, opening the need for discussions of R&D cost-sharing by those countries that can afford to pay more.

Belated bad news about blockbuster drugs such as Vioxx and Celebrex rocked the U.S. FDA last year and eroded public trust in government and the pharmaceutical industry, speakers said. "We have no reliable system in the U.S. for detecting adverse drug reactions," said keynote speaker Kennedy, who led the FDA in the 1970s.

Busy doctors tend to underreport adverse drug reactions on a voluntary basis, and companies, required to report, are "doing reasonably well," Kennedy said. "But at the end of the day … we just don't know enough soon enough." He cited systems in other countries, such as England and New Zealand, as "decisively better than ours."

The reporting or underreporting of results from clinical trials is another aspect of the bad news problem at the FDA. The International Consortium of Medical Journal Editors has announced that its members will no longer report the results of a clinical trial unless that trial is registered in a publicly accessible forum before enrollment begins. "The registry that everyone thinks is the right one is *www.clinicaltrials.gov,* which is maintained by the National Institutes of Health," Kennedy said. This issue is being debated in Congress, he noted, and the pending legislation "looks tougher than the editors' requirement, but nobody knows what the outcome will be."

A STERLING REUNION

Checking into the dorm after 25 years, classmates find ideal conditions to reconnect, reflect, and head home recharged. By JOANNE JACOBS

IN THE FIRST YEARS OUT OF BUSINESS SCHOOL, conversations center around the here and now: promotions, projects, hot deals, the next big thing happening tomorrow or the day after.

By the 25th year, for MBAs who return for a class slumber party, the fun is discovering the complexity in each other's lives and connecting on a deeper level with old friends. For three days in June after they've moved into the Schwab Residential Center, alumni/ae get together to catch up on the past 25 years. There are panel discussions, dinners, parties, campus tours, a women's tea, a golf tournament, tennis, biking, swimming, and also the chance to stay up till 2 in the morning talking about the big questions: What's really important? What comes next?

Earlier in alums' careers, reunion talk tends to focus on the climb to the top, says Steve Denning, MBA '78, of General Atlantic Partners in Greenwich, Conn. At the 25th reunion, "we've begun to talk about the summit and about other things we might do as we come off the mountain." Classmates ask each other about their not-for-profit work, Denning says. "That wouldn't be a topic for the 10th-year reunion."

Business School grads are competitive people, prone to describe failure as "a different kind of success," Denning says. But "a lot of that drops out" when people are hitting 50 and close to the peak of their careers. The question becomes: "What are you going to do with the last 30 or 35 years of your life?"

The focus shifts to personal lives, families, and community service, Peter Spokes, MBA '79, executive vice president of the National Center for Fathering in Kansas, observed in an email. "People are in a very reflective mode at that point in their lives, and it's good to get together with other people going through the same thing. It's not quite like discussions with coworkers, church members, or neighbors, because you share the bond of starting out together."

The 2004 reunion for the Class of '79 marked two decades of celebrating 25th reunions at the Stanford Business School. Attendees are still talking about the life transitions panel led by Dave Torrey, MBA '79, of Growth Resources Partners in Palo Alto, at which panelists talked about their struggles, as well as their successes.

Frieder Krups, MBA '79, of Logistics Partners in Denmark, talked about the sale of his family company, his rush to create a new company, and what he learned when his second venture went bankrupt. Talking about failures, Krups wrote in an email, "has become much easier since I have detached from some of my old beliefs that only success counts. Also, being completely honest helps me to anchor the beliefs inside of me that 'I am OK' despite my failures, that they are part of a learning process."

Reaction was overwhelming, Krups wrote: One classmate told him that "hearing my story of 'failures' made him feel that we are all in the same boat, all on the same journey." As people shared vulnerabilities, "they felt compassion and connection to each other."

Jane Gardner, MBA '79, one of the panelists, agrees. After Krups spoke, his classmates felt liberated to talk honestly about "the hard times,

PHOTOGRAPH BY **NOLA LOPEZ**

> **No one makes it through 25 years without hard times and self-doubt.**
> —JANE GARDNER, MBA '79

not just the good times," says Gardner, now a marketing consultant in San Francisco. "I talked about why I loved the work I did in advertising, how sad it was when my company changed, and how afraid I was to leave after 21 years. My classmates and their families listened intently to all the stories. No one makes it through 25 years without hard times and self-doubt."

Middle age brings perspective, if not wisdom, says Laura Carstensen, a Stanford psychology professor who specializes in emotional development through the life span. "Humans are good at reconciling where we are in our lives, even if it's not where we expected or wanted to be. What makes people anxious and depressed is the climb. In the early years, there's so much uncertainty. Am I on the right track? Will I find the perfect mate? Once that's known, people deal fairly well."

Mary Bobel, MBA '79, an administrator at Stanford Medical School, had some trepidation about attending her 25th reunion: "I thought, 'Will only the really successful people come?' All that melted away … It was not at all a bragfest. People were thoughtful, reflective. You realize everybody's had ups and downs."

> **There were just enough events planned to give us opportunities to do things together, yet there was still time to share some moments with close friends.**
> —STEPHEN REED, MBA '76

Table-hopping at breakfast and connecting with classmates in conversations that went on from morning till night at the Schwab Center, Bobel talked to people she hadn't seen since graduation. Compared to other reunions, this was "more intense as we tried to catch up with as many classmates as possible," she says.

The '79 grads' experience wasn't unique, according to members of other classes.

"Everyone who showed up for our 25th reunion seemed to have gotten past the point in their life where they needed to impress or apologize," wrote Betsy Leichliter, MBA '77, of Leichliter Associates Market Research in New York, in response to an email survey. "Perhaps it was because by our 25th, so many of us had experienced the reality of major losses—investments, jobs, health, other personal losses—as well as great successes that may or may not have been what we envisioned for ourselves 25 years earlier."

The Class of '77, at the time it was admitted, was considered one of the most diverse, she recalled. "What I enjoyed most about the reunion was seeing that our class's diversity, open communication, and collective sense of humor were still alive and well."

> **People aren't as eager to rush forward; they live more in the moment.**
> —LAURA CARSTENSEN, STANFORD PSYCHOLOGIST

Young people tend to think they can do, have, know, and be everything, says Carstensen. As they age and realize the future isn't infinite, people focus on what's important to them, usually family and close friends. "People aren't as eager to rush forward; they live more in the moment," she says.

Spending the reunion together at the Schwab Center made those moments possible.

"Having us all stay at the Schwab Center provided much more opportunity for interaction," wrote Jeff Grubb, MBA '78, of U.S. Trust in Portland, Ore. "Those 10-minute conversations can't happen when you are with 1,000 other people."

> **Having us all stay at the Schwab Center provided much more opportunity for interaction.**
> —JEFF GRUBB, MBA '78

Talking to classmates who tried unconventional careers or different ways of giving back to society inspired him to "rethink my career and life in terms of what others have done."

"The best part was staying at the Schwab Center—it made it so easy to party late, to run into friends over breakfast, in hallways, wherever," wrote Stephen Reed, MBA '76, of SDR Films in New York City. "There were just enough events planned to give us opportunities to do things together, yet there was still time to reflect, explore, or share some moments with close friends whom we had not seen in some time."

Linda Schuck, MBA '78, "reclaimed some wonderful friendships that I had let slip away." By the 25th reunion, "most people have faced pain and challenges in life—themselves, their parents, their partners, their children—and understand that love, persistence, loyalty, strength are the treasures of life. Each of us had followed a different path, straight or circuitous, seen different places near and far, and had different joys and sorrows, so that every person I talked with had deep, genuine, and rich stories to tell."

> **Every person I talked with had deep, genuine, and rich stories to tell.**
> —LINDA SCHUCK, MBA '78

"As students, there was some tendency to trumpet one's own accomplishments or ambitions and to interact with others primarily to the extent they could be useful—emotionally, socially, professionally," admitted Ken Kobylenski, MBA '76, who works for Solectron in Silicon Valley. By the 25th reunion, graduates were more interested in others, more willing to listen.

Peter S. Kent, MBA '77, of Insight Business Systems in Woodside,

FROM 5 TO 50: THE LIFE CYCLE OF CLASS REUNIONS

There's the recurring nightmare that today is the final for a class you never went to all quarter. There's the nickname you acquired at an orientation event and can't shake. And then there's the business deal that wouldn't have happened without advice from a classmate. Regardless of where you are in life, there are things about your time as a student at the Business School that are with you every day and that help draw you back to alumni reunions.

Reunion attendance has been rising steadily for the past five to seven years, says Lynne Reynolds, director of alumni relations. Graduating classes are larger, the Internet makes it easier to keep in touch, and the School depends on grads who help plan the reunion and recruit their classmates to attend.

Four years ago, so many showed up at the fall alumni weekend that it was hard to find places to put them. So the 5th, 10th, and 15th reunions were moved to the spring and joined by a brand-new and very popular first-year reunion.

The "young" reunions include lots of children and a carnival to keep the kids entertained. The "older" reunions are more likely to revolve around speakers, programs, and the homecoming football game. The 25th, the only residential reunion, is held in June, the week after graduation. As alumni/ae come back to campus throughout their lives, each reunion has a special character.

1ST: One year after graduating, new MBAs still getting settled in their careers return to touch base with others and network like mad.

5TH: The 5th reunion has a high turnout since graduates still feel close to the School and to classmates, says Lisa Brown, associate director of student programs and reunions. They're proud of their early successes and there's lots of networking.

10TH: The 10th is the stroller reunion, with many graduates bringing their young families along. Panel discussions focus on balancing careers and home life and investing for future security.

15TH: Alumni are very busy at work and home. They're also more secure about themselves. Fewer chests are thumped. "They're starting to mellow a bit," says Brown.

20TH: At 20 years, graduates switch from the spring reunion to the fall celebration of homecoming weekend with the older classes. "At the 20th, they still think they're young and they're shocked to find themselves with the older crowd," jokes Reynolds. Twenty years out, grads are successful enough that the talk starts to turn away from careers and toward other parts of their lives.

25TH: The silver anniversary, the only residential reunion, draws graduates who've never been back to campus as well as alumni who've been deeply involved. At the 25th, grads are "much more honest" about their difficulties, Brown says. "At earlier reunions, they say, 'I did this, I did that, it's all great.' At the 25th, they tell the real story." They also ask each other: What are we going to do with the rest of our lives?

30TH–45TH: Post-silver and pre-gold, alumni are talking about retirement careers, community service, travel, and health. And Stanford football.

50TH: Official members of the Half Century Club, alumni are invited to attend an annual event in the spring with others who are 50 or more years out of business school. The talk is of life lessons learned and new projects.

was surprised at how much he enjoyed his 25th reunion: "No competition (we're too old for that now), kids are mostly grown and on their own, and people have taken some surprisingly different directions. We not only had the new CEO of KPMG, a dubious distinction in this day of corporate accounting problems, but also the new chairman of the National Endowment for the Arts. I'm not sure which MBA course prepared him for that distinction, but we loved the poem he wrote us about money. He did learn something in B school, after all."

It was the first reunion for Sami Suleiman, MBA '79, who works for Commonwealth Financial in Maryland. He wasn't going to go, but his wife talked him into it. To his amazement, he recognized almost everyone, without looking at name tags. Old friends remembered the same stories about their student days. "To say that the 25th reunion was a mind-blowing experience does not give it a fair representation. I was thrilled, exhilarated, and satisfied that my GSB experience was in fact what I always thought about it."

> **I was thrilled, exhilarated, and satisfied.**
> —SAMI SULEIMAN, MBA '79

Chris Berkeypile, MBA '79, who runs Organize Me Now in New Jersey, enjoyed her time so much she and Mary Bobel organized an unofficial 26th reunion for this fall in the wine country.

Gardner offers advice for graduates who have doubts about attending their 25th reunion: Just go! "I know some people don't go to their reunions, thinking all their classmates will be CEOs and wondering if they will just feel worse about whatever struggles they are dealing with in their lives. … Instead, you find out that many of your classmates are just like you: proud of hard-won accomplishments, rueful about the bumps along the way, devoted to family and friends, able to laugh at themselves, and looking to reconnect with other good people who were part of their lives many years ago." ■

SALESPEOPLE TRADE TALES ABOUT COLD CALLING CUSTOMERS, but at the Business School, students and alums reminisce about the moments when their hearts stopped because of "cold calls" from Professor James Van Horne. ■ The A.P. Giannini Professor of Banking and Finance is legendary for his classroom-quizzing techniques, which somehow strike both fear and respect in the students who volunteer for his elective courses. Now in his 40th year at the Business School, Van Horne crafts tough questions about interest rates and finance for corporations, nonprofits, and governments. He also demands tough answers of himself. During a lecture to alumni last fall, for example, he challenged the conventional wisdom that says it's good for the Federal Reserve Board to signal its intentions on interest rates. Van Horne argues that the policy gives us a false sense of certainty. ■ Recently, the School's most fabled inquisitor consented to have the tables turned. At the suggestion of an alumnus, this magazine invited four former students to cold call Van Horne on anything they desired. Here is an edited transcript of that laughter-filled discussion last October, which Van Horne, in his usual disciplined style, promptly ended at the appointed time.

Four former students turn the tables on the venerable finance professor

Cold Calling VAN HORNE

Photograph by STEVE LABADESSA

THE FOUR ALUMS WHO INTERVIEWED PROFESSOR VAN HORNE ARE:

ROELOF BOTHA, MBA '00,
a venture capitalist with Sequoia Capital in Menlo Park. He previously was chief financial officer of PayPal Inc.

TONY LEVITAN, MBA '93,
founder of Clip-on Pro LLC, a golf product company in Palo Alto. Previously, he cofounded Egreetings Network, an early Internet company.

VICKI RUPP, MBA '84,
vice president of purchasing for the Americas at American Express until she retired in 2001 and moved to Kentfield, Calif.

STEPHANIE TWOMEY, MBA '83,
vice president of the Private Client Group at Merrill Lynch & Co. Inc. in Menlo Park.

Tony Levitan: When I first learned that you were coming into your 40TH year at the Business School, I started to think about what the Van Horne legacy meant to me. If there is a legacy, what do you think it's going to be?

JAMES VAN HORNE: I would hope it would be that students developed a better way of organizing managerial problems in a framework to reach decisions, that they understand market dynamics and imperfections in the markets that create opportunity, and that they think of things in an ethical way.

It's important for students to have some institutional background, to know what's happening currently in the marketplace, and to be aware of trends. More important, however, is an analytical framework to analyze a corporation and the dynamic process of funds flowing through a balance sheet. In the case of other types of markets, what's the equilibrium process that's driving things? What's the market for corporate control? Students should be able to systematically lay out a framework, a means for looking at this and other things with respect to operating performance, valuation, and driving forces.

Stephanie Twomey: You once were quoted as saying students had changed—they were brighter but less intellectually curious than your earlier students. I'm curious how you see the state of the students these days.

VAN HORNE: Students still are quite stimulating to me, and they are challenging. The data suggests they are spending less time on academic affairs than they did 20 years ago. In a quasi-seminar type of course that I teach, we used to have lively discussions of academic journal articles. About 8 or 10 years ago, that no longer was possible. Certainly there were students who were intellectually curious who could engage in those conversations, but the majority of the class was not, and consequently I changed the format of my teaching.

Vicki Rupp: When I went back to Minneapolis after business school, I revived the Business School alumni group there. You were one of the first speakers. It was a very snowy winter in Minneapolis and when I tramped over to the First Bank Building and looked at the assembled crowd, I remember being awestruck because half to two-thirds of the financial movers and shakers in Minneapolis were in that room. After you talked, they beat a path up to you. When you have so many alumni who stay in touch with you, what kinds of things do they want to talk about?

VAN HORNE: Sometimes it's just social chit-chat about what they are doing. Some former students run ideas by me, particularly things that are new in financing. I've had probably 8,000 students, so I don't keep up with all by any stretch of the imagination. However, I have interaction with several hundred a year. It's been a good and stimulating interchange.

Roelof Botha: I want to ask a more technical question. The first time I ever heard of the Green Shoe was in your introductory corporate finance class. You alluded to this as the underwriters' over-allotment option in a public offering, originating with the Green Shoe Co. Recently we've seen some companies, including Google, which was one of Sequoia Capital's investments, wanting to embrace an open IPO process and not wanting to use the traditional underwriting process, which seems to put a lot of power in the underwriters' hands. The Green Shoe, in my mind, is a more expensive part of going public than people appreciate. I am curious whether you would counsel a technology company going public to embrace an open IPO or an auction-based process for setting its price. In addition, should the company also avoid the Green Shoe, which really puts the company's interests at odds with those of the underwriters, because underwriters can capture profits from IPO share price "pops"?

VAN HORNE: You have a lot of questions embraced in that one. The notion of the Green Shoe basically is one where the underwriters say they want to be able to satisfy the demand of certain institutional investors and need to have the ability to go short and hence use the Green Shoe in order to get shares to cover their short position. Secondly, the option may have value to the underwriter apart from this. I don't think for technology companies it makes a whole lot of sense. On the notion of an auction IPO, Google had to make some concessions moving a little more toward an under-written deal, but the number of companies with that investment allure is small, and obviously the underwriters are opposed to an auction. What do you think?

BOTHA: I encourage anything that's an open process, having gone through the experience of taking a company public and having the bankers renegotiate terms at the last minute before going public. At that juncture, the pressure is so high to complete the IPO that you are forced to just take what the bankers give you.

VAN HORNE: You weren't in that position with PayPal, were you?

> "What do you hope students take away from the finance program?"

BOTHA: We were. When we initially tried to go public a couple of frivolous lawsuits hit, and we had to postpone the offering by a week. That changed the banks' bargaining position, and we went from being 20 times oversubscribed to 8 times oversubscribed. They forced us to lower our IPO price, and our shares traded up 50 percent on the first day. Because of the Green Shoe, the banks reaped significant profits! They insisted on a Green Shoe *[laughing]* because it's "standard practice."

VAN HORNE: You have to take your hats off to Google and others that have challenged the *modus operandi.*

Twomey: In 1987, right after the stock market crash, you were quoted with respect to hedging. You said we can hedge all day long in financial services and finance, but for some reason we just can never get our hands on basis risk. Is that an enduring situation today?

VAN HORNE: In financial markets, you cannot necessarily trade off all types of assets against each other and avoid systemic risk that's going to affect all financial asset categories. In what was then called portfolio insurance, the hedges that were in place could not be effectively reversed because prices were dropping so rapidly during that day that there was no liquidity. So there was enormous basis risk. Basis risk is when the spot-market instrument and the offsetting hedge-market instrument have different movements in the marketplace. In this case it was a liquidity issue that just simply drove some of those values dramatically apart.

Do I think something of that sort will repeat itself? I doubt it, unless there was some episodic event that triggered it. There is still a lot of discussion on what happened in the 1987 stock market crash. Merton Miller, a Nobel Laureate now deceased, had various theories on it. There was the avalanche theory, where you have many little snowflakes and finally one snowflake starts an avalanche. But there were statements by the secretary of the Treasury and by the head of the Fed that, perhaps, could have triggered it. Once it started, the momentum, the avalanche, just kept going well beyond what most people would have considered reasonable.

Rupp: What do you hope students take away from the finance program and from the MBA Program as a whole?

VAN HORNE: I like to force students to stand up and be accountable, make a decision. Oftentimes in our courses we have tons of analysis and talk about issues and never reach a decision.

Levitan: *[laughing]* Having experienced that, I'm getting a sense of déjà vu. I did get a lot of finance from your class, but I also got something different, and I think it goes to your approach in class and your belief in the cold call. I remember vividly, as many people probably do, my Van Horne Cold Call, which taught me a lot. There was the financial part but there was also the interactive part, the character part as a business leader,

> "I like to force students to stand up and be accountable, make a decision. Oftentimes in our courses we have tons of analysis and talk about issues and never reach a decision."

which I still think about when I interact with people. So, as a nonfinancial guy, am I seeing more in the cold call because I couldn't experience the financial part as well as you would have liked? Or is there another intent behind it as well?

VAN HORNE: There are many intents, and I suspect I've gotten somewhat better at it over the years. The purpose is to have everybody prepared and engaged in the course, and to hold them accountable. As you know, I allow people to give me notes at the beginning of class and I don't call on them, but when I call on people, I expect them to be prepared. I try not to be mean and embarrass people, and I've gotten a little better at that. The better a student is, the more I will push. To other students I'll throw softer balls and try to effectively encourage them.

LEVITAN: Mine was a Nerf ball. *[laughter]*

RUPP: As was mine. *[laughter]*

VAN HORNE: I realize some students do not like my teaching style. They find it intimidating. That's not my purpose, but nonetheless I understand their concerns. Hopefully they'll realize that and not take the course. That's the advantage of teaching elective courses.

LEVITAN: For me, there was a combination of a coaching moment—of "I expect a lot from you"—and a kick in the butt, saying "You can do more," and that's the part that I take with me.

VAN HORNE: I now walk around the classroom a lot more. At times, I lecture from the back of the class. I also call on people behind my back whom I'm not looking at.

TWOMEY: That's exciting!

LEVITAN: Yeah! *[laughter]*

VAN HORNE: Students get used to that. I'll be walking up the steps toward the back lecturing, and I'll call on some

poor student in the front row. It's unnerving.
RUPP: Gives more meaning to guard your back. *[laughter]*

Botha: I'm curious. What do you think enables you to pull that off so well?

VAN HORNE: I don't know that I pull it off that well. When I came here I was blessed with some really great, hard-nosed teachers. They extracted their pound of flesh every class, and they were just wonderful teachers. So cold calling was a tradition here. I tried to refine it and know its limitations, because you can offend some students, and that's not my intent.

BOTHA: For me, it's the entire package of your teaching that makes the cold calling effective. Part of what I experienced was a feeling of not wanting to let you down with my answer because I had so much respect for you as a teacher. You're demanding but endearing; you're a mentor but a teacher who expects the student to have an answer.

VAN HORNE: Well, I take teaching seriously. With some students who struggle with the course, I spend a lot of time. I have open office hours; I see students whenever they come in. I also spend a lot of time formulating a course by going through journal articles and cases and preparing for each class. I think that one thing that students do not forgive, and they should not,

> "There's so much irresponsibility around valuation? Do you feel attachment to that?"

is a professor that's not well prepared and well organized. Moreover, I have a genuine interest—most of my colleagues do as well—in students. I enjoy the students; I enjoy teaching here. It is really a thrill and a privilege to be in the classroom at Stanford Business School.

Rupp: The last question of my final exam in your course began "If pigs could fly…" and then you asked us to develop a financial instrument of our own. Well, if pigs could fly, what courses should the GSB be offering current students? Along with that, what kind of refreshers should the GSB offer alumni? A number of us who graduated 20 years ago are now on non-profit or corporate boards where we're playing a financial role. In many cases that really wasn't our function in our careers.

VAN HORNE: We're offering a lot of courses to current students. It's hard for me to imagine too many more that we should be offering. In regard to nonprofits, I'm teaching a new course in the spring quarter on government and nonprofit financing. Our public management students seem to want a course of that sort. In our Center for Social Innovation, we are offering executive education and continuing education programs in that regard. I think the center has done a good job of outreach to bring management skills to nonprofit organizations in particular.

Twomey: What do you think the MBA core curriculum ought to look like?

VAN HORNE: I've had fairly strong views. The dean's office and the faculty have not agreed with me, but it's evolving in that direction. My view is that the first quarter should include five courses of foundation areas, much as we have now, and then we should go to distribution requirements of two or more courses in various areas giving first-year students more freedom in the second and third quarters. I think the Dean's Office, Dean Kreps in particular, is moving in that direction. The core changes over time slowly, and there is a sizable group of faculty who think that the core is very important and some who think the core should be even larger, in the sense of occupying virtually the entire first year. I certainly don't agree with that.

Botha: Have you seen student interest in finance courses change? When I was here in '99–2000, interest seemed to wane when everybody was trying to drop out of school and start the next dot-com company.

VAN HORNE: You bet! *[laughs]* The classes of '99 and 2000 shied away from analytical finance and accounting courses. A fixed-income course I taught, which, I think, was called *Money and Capital Markets* when you took it, was in a classroom that holds 60. The first year I was running 60 or close to 60 students. The next year, 1999, it went down to 49 students, and the next year to 30 students, and then the next year it was back up to 55 or 60 students. In '99–2000,

> "Without naming names, at times I'm moderately embarrassed."

it was particularly difficult for finance professors to talk about how you value a company—I mean, most of the principles of valuation we couldn't apply.

LEVITAN: They were too busy looking two quarters forward, price-to-earnings valuation on an IPO. Right?

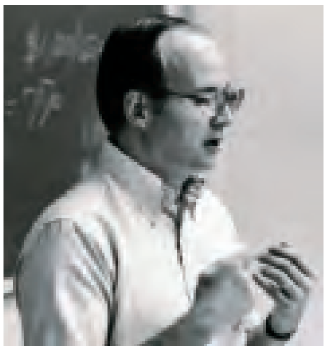
BOTHA: Price to sales. *[laughter]*

LEVITAN: Oh right, sorry. Price to possible sales.

VAN HORNE: People would say that five years out, this will be our market share. There is huge uncertainty around it and no sales yet, but we will assume a total market of X and a market share of Y. Then, an enterprise-to-sales ratio is applied to get a value. Seemingly, some stocks were worth the moon.

Levitan: There's so much irresponsibility around valuation in the venture community—I'm speaking like a true entrepreneur! *[laughter]* Do you feel any attachment to that, given that these are people who've come through the GSB and you would think maybe they'd know better?

VAN HORNE: Without naming names, at times I'm moderately embarrassed. I don't teach venture capital per se. I follow it to an extent. I know people that are in this business.



JAMES VAN HORNE has taught finance to more than 8,000 students since he joined the Business School faculty in 1965 after earning a doctorate from Northwestern. He is shown above *(from top)* in 1966, 1978, and 1985.

Besides his teaching, he is best known for his work on the theory and behavior of interest rates, corporate finance, budgeting decisions, and the valuation of market instruments. He has authored five widely used textbooks, and served in the U.S. Treasury and as dean of academic affairs at the Business School.

Were dumb things done in '99–2000? Of course. The problem with '99-2000, in my judgment, is that you had a paradigm shift. There's no question that this paradigm shift had real economic value, but you don't know with a paradigm shift how big the pot of gold will be at the end of the rainbow. It was imagined to be far larger than it proved to be. Still, it was an amazing change and revelation.

Having said '99–2000 student interests were unusual, I should add that a longer, more secular trend is that other areas of the School have built up, some dramatically. Finance used to be the largest area in the School faculty-wise and, arguably, had the most interesting and best courses. I'm talking about 25 years ago. Now, the menu available to students is far greater and consequently the enrollments in finance courses on a percentage basis have declined. I'm not saying we're suffering, but certainly you can't add a lot of excellent faculty and imaginative offerings in other areas without affecting some of our enrollments.

Rupp: When I think of the influence you've had on the classmates I know, this idea of integrity and responsibility comes through. We were here in the early '80s. How is the School addressing the issues of integrity and responsibility in the aftermath of some of the meltdowns we saw in the last few years?

VAN HORNE: Certainly they're used as examples. There's a fine line between trying to emphasize it and not overdoing it.

Students aren't interested in being sermonized to. By exploring some of these issues, with Enron and things of that sort, we can inculcate a better feeling of right and wrong. In one of my classes, I lecture on financial ethics. The problem is there are various shades of gray; those shades are very difficult to differentiate as to what is ethical behavior and what really isn't. So I try to give some feel for that. There are manipulations that go on in financial markets that are embarrassing. I'm unwilling to give accolades to people in tax arbitrage and other endeavors who do things that, while not necessarily illegal, are pushing up against the legal boundary and are clearly, in my judgment, not morally or ethically right. So I'm at odds, particularly in finance, with some people that push the limits that I think should not be pushed. Some happen to fall over the line, and it's no longer a case of them just being morally accountable. It's really a case of them being legally accountable. We have a lot of cases of greed that are disturbing.

Levitan: Professor, I've spent four years teaching as a lecturer at Berkeley. It went from being absolutely thrilling to pretty fun to OK to boring. Partly it was because they didn't set up a framework where it was in the best interest to evolve the curriculum. At 40 years, how do you stay fresh beyond the things that you have already talked about?

VAN HORNE: There are two things. The students are different every year. They have different personalities, and I find them stimulating. Second, the field I'm in is constantly changing, and I am genuinely interested in following the trends by reading systematically. Also, you're only as good as your last class. Students are interested in the here and now, so you can't rest on your notes of five years ago and expect them to be interested. They've got to be stimulated. It's not sufficient that some person they knew—their father or grandfather—took my course. *[laughter from the group]* ■

ALUMNI ADMIRERS OF PROFESSOR JAMES VAN HORNE recently established an endowed fund to honor and recognize him. The James C. Van Horne Fund for Finance Faculty supports activities at the Business School that ensure the finance program remains a robust part of the MBA curriculum.

TO DONATE, contact Sharon Marine at 650.725.3213.

Bush Names Economist Lazear to Tax Panel

PRESIDENT George W. Bush has appointed **Edward Lazear**, an economist at the Business School and the Hoover Institution, to the President's Advisory Panel on Federal Tax Reform. The bipartisan panel will advise the secretary of the U.S. Treasury on how to simplify the U.S. tax code, make it fairer, encourage economic growth and job creation, and strengthen U.S. global competitiveness.

Drawing on his background in human resources and economics, Ed Lazear will join a panel commissioned to simplify the complicated federal tax code.

ROBERT HOLMGREN

"The tax system is unbearably complicated and needs a fresh look," said School Dean **Robert Joss**. "Ed Lazear will bring a depth of knowledge and insight to the problem." Lazear is the Jack Steele Parker Professor of Human Resources Management and Economics at the Business School. He is an expert on worker productivity and was the founding editor of the *Journal of Labor Economics.*

He has written extensively on labor markets, pensions and retirement, microeconomic theory, worker compensation, education, and immigration. His scholarly work includes studies on employee incentives, age-earnings profiles, profit-sharing, and career prospects. Lazear also has written about government policies on distribution of income within the household, discrimination, affirmative action, and comparable worth.

Other members of the new panel include its chairman, Connie Mack III, a former U.S. senator and a senior advisor at Shaw Pittman LLP.

ASSISTANT PROFESSOR of finance **Stefan Nagel** was honored recently as the coauthor of the best paper to appear in the *Journal of Finance* in 2004. The $10,000 Smith Breeden Prize is given annually to authors of a paper chosen by the associate editors of the journal, a publication of the American Finance Association. Nagel shared the honor with Markus Brunnermeier of Princeton.

Their October 2004 article, "Hedge Funds and the Technology Bubble," questioned the efficient markets notion that rational speculators always stabilize prices. They documented that hedge funds did not exert a correcting force on stock prices during the technology bubble. The work was also summarized in the February 2005 issue of *Stanford Business* under the title "Irrationality Can Pay Dividends."

A SOPHISTICATED ONLINE program for simulating factory operations has earned two Business School faculty members the Wickham Skinner Teaching Innovation Award presented by the Production, Operations, and Management Society, an international organization to promote teaching in the field. The award cited Littlefield Technologies, the name of the teaching tool now used at more than 40 colleges and universities, for demonstrating "real pedagogical innovation" and improving student learning over time, and for being transferable. "This is the most innovative technological application I expect to encounter in my career," wrote one professor in supporting the award. Another noted that it "fills a large gap" in available teaching material in the field.

The simulation, first used in the Business School's core course in operations in 1997, is the brainchild of **Sunil Kumar**, associate professor of operations, information, and technology, and **Sam Wood**, a School lecturer who today is president of Responsive Learning Technologies, the firm created to market the program.

Kumar and Wood have found that students repeatedly click the button that tells them their overall game standing. "It is clearly addicting," says Kumar, who finds that at least in his classes "the amount of time they put into it is disproportionate to the weight of the game's outcome on their grade." The program is a standard component of the Business School's core course in operations.

A DAYLONG CONFERENCE of environmentalists debated what is needed most: stricter laws, better technology, cooperation from business—or just a change in attitudes among all the world's citizens.

"My students and I have lofty, idealistic notions about the environment," explained **Erica Plambeck**, an associate professor of operations, information, and technology at the Business School and one of the conference organizers. "We have learned that pragmatic business management will ultimately lead to innovation and efficiency to move us to sustainable development."

In recent years a growing number of universities have formed alliances with businesses, and they have set the bar high on their goals. Last spring, the Stanford Institute for the Environment was created to take an interdisciplinary approach to develop creative solutions to some of the most serious environmental problems, like dwindling energy supplies and species extinction.

The U.S. Business Council for Sustainable Development conference was hosted by the School's Center for Social Innovation.

WHEN CHIEF EXECUTIVES become celebrities, they lead companies that return less to shareholders than those of CEOs who are less well known, according to research presented at the American Economic Association's annual meeting in January by **Ulrike Malmendier**, assistant professor of finance, and Geoffrey Tate of the Wharton faculty. Many CEOs who grace the covers of magazines are paid more and spend more time on outside activities such as writing books than their less-known colleagues. An earlier version of the research was reported in the February 2003 issue of *Stanford Business*. In talking to *Forbes* magazine, the researchers were reportedly nervous. "Perhaps they were afraid of becoming celebrity economists," the magazine speculated.

The Economist's reviewer's choice for best business book of 2004 went to *The Modern Firm*, by Business School economist **John Roberts**. (A chapter on reorganization from the book was featured in the February issue of *Stanford Business*.) The reviewer said Roberts lays out frameworks about complex and varied corporate structures in lucid, jargon-free language. Meanwhile, Professor Emeritus **Harold Leavitt** has published a new book, *Top Down,* in which he explains why he believes hierarchies are here to stay.

TWO FACULTY MEMBERS presented lectures based on their research at the School's first-ever Executive Forums in India, held in January in New Delhi, Bangalore, and Mumbai. **V. "Seenu" Srinivasan**, the Adams Distinguished Professor of Management and director of the Strategic Marketing Management Executive Program, focused on "Brand Equity: Measuring, Analyzing, and Predicting."

Robert Burgelman, the Edmund W. Littlefield Professor of Management and director of the Stanford Executive Program, lectured on "Strategy Is Destiny: A Perspective on Strategic Leadership."

Srinivasan is an internationally known specialist in marketing who has twice been honored with the John Little Award from the Marketing Science Society for the best marketing article published in its journal. Burgelman is an expert on corporate entrepreneurship, strategic business exit, and the role of strategy in firm evolution.

Sponsored by the Stanford Business School Alumni Association, executive forums have also been held in China, Singapore, Taiwan, Hong Kong, Korea, Spain, Portugal, France, Italy, Denmark, England, Germany, Switzerland, and Mexico.

David Brady received the Stanford Alumni Association's 2004 Richard W. Lyman Award for exceptional volunteer service to the University. Brady is the Bowen H. and Janice Arthur McCoy Professor of Political Science and Leadership Values at the Business School and the Morris M. Doyle Centennial Professor in Public Policy at the School of Humanities and Sciences. He is also deputy director and a senior fellow at the Hoover Institution.

"Dave combines an extraordinary commitment to teaching with exceptional research and insightful national commentary," Provost John Etchemendy said. "That's in addition to the many hours he commits to the Alumni Association and the unenviable administrative tasks he has performed with great aplomb."

An expert on the U.S. Congress, Brady received the Dinkelspiel Award for excellence in undergraduate teaching in 1992 and the Phi Beta Kappa Award for best teacher on campus the next year. He has served as an associate dean of the Business School, as acting vice provost for learning technologies, and as chair of the Faculty Senate's Committee on Undergraduate Studies. The Lyman prize includes funds for the recipient to acquire books and materials for the University libraries. ■

faculty publications

ACCOUNTING

An Exploratory Study on the Emergence of Management Control Systems: Formalizing Human Resources in Small Growing Firms
Antonio Davila
Accounting Organizations and Society (Vol. 30, No. 3)
APRIL 2005

A Perspective on "Asymmetric Information, Incentives, and Intrafirm Resource Allocation"
Madhav Rajan and Stefan Reichelstein
Management Science (Vol. 50, No. 12), DECEMBER 2004

CORPORATE GOVERNANCE

Bankers on the Board and the Debt Ratio of Firms
Daniel Byrd and Mark Mizruchi
Journal of Corporate Finance (Vol. 11, No. 1–2), MARCH 2005

DECISION MAKING

The Perfect Is the Enemy of the Best
Jonathan Bendor and Sunil Kumar
Journal of Theoretical Politics (Vol. 17, No. 1), JANUARY 2005

ECONOMICS

Uncertainty About Uncertainty and Delay in Bargaining
Yossi Feinberg and Andrzej Skrzypacz
Econometrica (Vol. 73, No. 1)
JANUARY 2005

EDUCATION POLICY

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

FINANCE

The Pooling and Tranching of Securities: A Model of Informed Intermediation
Peter DeMarzo
Review of Financial Studies (Vol. 18, No. 1), SPRING 2005

Talking Up Liquidity: Insider Trading and Investor Relations
H. Hong and Ming Huang
Journal of Financial Intermediation (Vol. 14, No. 1)
JANUARY 2005

HEALTH CARE POLICY

Evidence-Based Guidelines as a Foundation for Performance Incentives
Alan Garber
Health Affairs (Vol. 24, No. 1)
JANUARY/FEBRUARY 2005

Detecting Medicare Abuse
David Becker, Daniel Kessler, and Mark McClellan
Journal of Health Economics (Vol. 24, No. 1), JANUARY 2005

HOMELAND SECURITY

HEPA/Vaccine Plan for Indoor Anthrax Remediation
Lawrence Wein, Yifan Liu, and Terrance Leighton
Emerging Infectious Diseases (Vol. 11, No. 1), JANUARY 2005

LABOR ECONOMICS

Has Management Strangled U.S. Unions?
Robert Flanagan
Journal of Labor Research (Vol. 26, No. 1), WINTER 2005

MARKETING

Product-Line Length as a Competitive Tool
Michaela Draganska and Dipak Jain
Journal of Economics and Management Strategy (Vol. 14, No. 1)
MARCH 2005

Determinants of Customers' Responses to Customized Offers: Conceptual Framework and Research Propositions
Itamar Simonson
Journal of Marketing (Vol. 69, No. 1), JANUARY 2005

OPERATIONS MANAGEMENT

A Principal-Agent Model for Product Specification and Production
Ananth Iyer, Leroy Schwarz, and Stefanos Zenios
Management Science (Vol. 15, No. 1), JANUARY 2005

ORGANIZATIONAL BEHAVIOR

Ecologies of Organizations: Diversity and Identity
Michael Hannan
Journal of Economic Perspectives (Vol. 19, No. 1), WINTER 2005

Emotional Strategy
Margaret Neale
Negotiation (Vol. 8, No. 2)
FEBRUARY 2005

Asymmetric Reactions to Work Group Sex Diversity Among Men and Women
Jennifer Chatman and Charles O'Reilly
Academy of Management Journal (Vol. 47, No. 2), 2004

Economics Language and Assumptions: How Theories Can Become Self-Fulfilling
F. Ferraro, Jeffrey Pfeffer, and Robert I. Sutton
Academy of Management Review (Vol. 30, No. 1), JANUARY 2005

PROBABILITY

Hedonic Price Indexes with Unobserved Product Characteristics, and Application to Personal Computers
C. Lanier Benkard and Patrick Bajari
Journal of Business and Economic Statistics (Vol. 23, No. 1)
JANUARY 2005

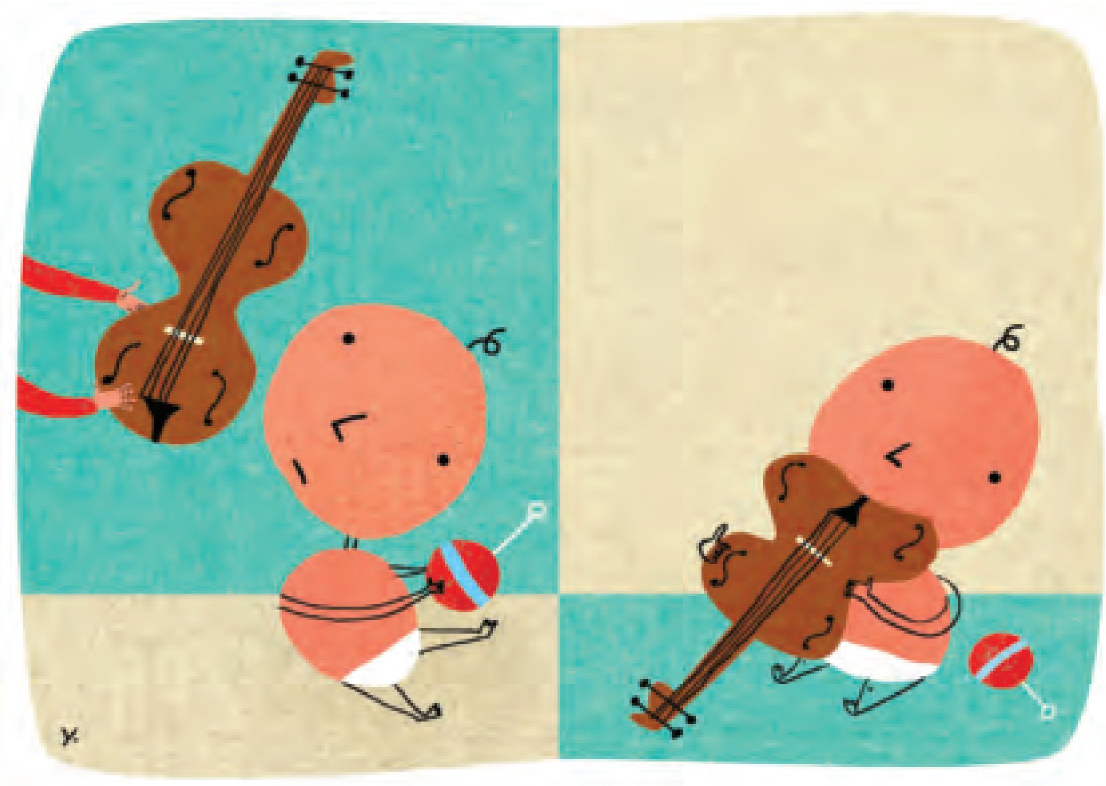
Heavy Traffic Analysis of Open Processing Networks with Complete Resource Pooling: Asymptotic Optimality of Discrete Review Policies
Baris Ata and Sunil Kumar
Annals of Applied Probability (Vol. 15, No. 1), FEBRUARY 2005

SUPPLY CHAIN

The Bullwhip Effect: Reflections
Hau Lee, V. Padmanabhan, and Seungjin Whang
Management Science (Supplement to Vol. 50, No. 12), DECEMBER 2004

Psychology

Dis-chord of the "Mozart Effect"



JAMES YANG

Scientists have discredited claims that listening to classical music enhances intelligence, yet this so-called "Mozart effect" has actually exploded in popularity over the years. So says Chip Heath, an associate professor of organizational behavior who has systematically tracked the evolution of this scientific legend. What's more, Heath and his colleague, Swiss psychologist Adrian Bangerter, found that the Mozart effect received the most newspaper mentions in those U.S. states with the weakest educational systems—giving tentative support to the previously untested notion that rumors and legends grow in response to public anxiety.

"When we traced the Mozart effect back to the source [a 1993 *Nature* journal report titled 'Music and Spatial Task Performance'], we found this idea achieved astounding success," says Heath. The researchers found far more newspaper articles about that study than about any other *Nature* report published around the same time. And as the finding spread through lay culture over the years, it got watered down and grossly distorted. "People were less and less likely to talk about the Mozart effect in the context of college students who were the participants in the original study, and they were more likely to talk about it with respect to babies—even though there's no scientific research linking music and intelligence in infants," says Heath, who analyzed hundreds of relevant newspaper articles published between 1993 and 2001.

Not only had babies never been studied, but the original 1993 experiment had found only a modest and temporary IQ increase in college students performing a specific kind of task while listening to a Mozart sonata. And even that finding was proved suspect after a 1999 review showed that over a dozen subsequent studies failed to verify the 1993 result. While many newspapers did report this blow to the Mozart effect, the legend continued to spread—overgeneralizations and all. For example, Heath cites a 2001 article in the *Milwaukee Journal Sentinel* that refers to "numerous studies on the Mozart effect and how it helps elementary students, high school students, and even infants increase mental performance." In truth, none of these groups had been studied, says Heath.

So why did the Mozart effect take such a powerful hold? Heath and Bangerter surmised that the purported effect tapped into a particularly American anxiety about early childhood education. (Bangerter, who was doing research in Stanford's psychology department during the study, had been struck by Americans' obsession with their kids' education. For example, he saw that a preschool near the Stanford campus had the purposeful name Knowledge Beginnings, whereas a preschool near a university in Switzerland was called Vanilla-Strawberry. The latter made no lofty claims about its educational goals.) Concern about education in 1998 led Georgia lawmakers to distribute free classical music to new mothers, while Florida lawmakers required state-funded day-care centers to play classical music every day.

Heath and Bangerter compared different U.S. states' levels of media interest in the Mozart effect with each state's educational problems (as measured by test scores and teacher salaries). Sure enough, they found that in states with the most problematic educational systems (such as Georgia and Florida), newspapers gave the most coverage to the Mozart effect.

"Problems attract solutions," explains Heath, and people grappling with complex problems tend to grasp for solutions, even ones that aren't necessarily credible. The anxiety explanation seems simple and convenient on the surface, but as the history of the Mozart effect shows, a convenient answer may well be completely false. As Heath puts it, "We've got to look for a realistic way out instead of an easy way out."

— MARINA KRAKOVSKY

"The Mozart Effect: Tracking the Evolution of a Scientific Legend," Adrian Bangerter and Chip Heath, British Journal of Social Psychology, *2004.*

Human Resources

Gender Identity Affects Career Choices

WOMEN ACROSS THE BOARD seem to be enjoying greater parity with men except in "good-old-boy companies," where a woman's personal style and need for work/family balance may clash with organizational expectations, values, and demand, says a new study.

Business School professor Charles O'Reilly and doctoral student Olivia O'Neill have teased out this subtle distinction by looking at the relationship of careers not only to people's biological sex but also to their preferences in workplace environment and work style. The researchers looked specifically at gender identity—that is, how their subjects' goals and behaviors compared to certain society-wide stereotypes of feminine and masculine. They found subtle interactions between *biological sex* and *learned gender* behavior in particular organizational settings.

The researchers began their analysis in 1987 by separating 100 MBA students from the University of California at Berkeley into four "gender" groups: women who were "masculine" or "feminine" identified, and men who were "masculine" or "feminine" identified. "Masculine-identified" people were defined as those who wished to work for firms characterized by aggressiveness, while "feminine-identified" people were those who preferred companies that valued supportiveness and solidarity. Trained researchers observed the subjects and affirmed that individuals tended to exhibit behaviors similar to those they said they desired in firms, O'Neill says.

Four and eight years after the MBA's graduation, the researchers checked in with them to compare their salaries, promotions, and major life changes such as marriage, divorce, health, and shifts in employment status. Masculine-identified men fared the best overall. This is not surprising, say the researchers, given that the business world in general still tends to promote and reward aggressive behavior by males.

Women who sought cooperative, supportive "feminine" firms and career paths seemed to do pretty well across the board. Although their salaries started out lower overall, this group eventually earned as much as masculine-identified men—even while they worked 13 percent fewer hours. This suggests that there are now working environments that not only validate women's preferences for supportiveness and flexibility but also reward women financially.

It is widely assumed that ambition and assertive behavior always win out in the workplace, regardless of an employee's biological sex. However, the researchers found the lowest salaries were earned by masculine-identified women. O'Neill cautions that the correlations in the study cannot necessarily be used to determine causes, but she does hazard an explanation.

"Gender incongruity—that is, acting more like the opposite biological sex—is basically not rewarded, particularly in women," O'Neill says. Masculine-identified women sometimes experience a backlash in male-oriented workplaces, she explains. That is, their aggressive style can rub their male counterparts the wrong way and can lead to fewer promotions.

Also, many women in masculine-oriented firms eventually face child-rearing and family demands, a potential deterrent to their careers. Women with families may be less willing to relocate or put in as many hours as men and so are unable to compete equally for the highest level jobs in these aggressive firms.

Feminine-identified men also go against the grain of cultural expectations, but they do not seem to suffer as much as masculine-identified women. Their salaries at the end of eight years were on par with those of masculine-identified men, and they worked 10 percent fewer hours. In short, the study suggests that women and men who do not want to compete on masculine terms now have valid options.

"Gender incongruity—that is, acting more like the opposite biological sex—is basically not rewarded, particularly in women."

"One way to think about careers in organizations is as a series of tournaments at which employees at lower levels compete with each other for promotion to higher levels," O'Reilly says, reflecting on the results. "Gaining a promotion—winning a round in the tournament—enables a person to compete in the next round. Over the years, those with less motivation and ability are eliminated, and the remaining participants compete for the top-level positions in the firm.

"What we see in this study is that those who choose to enter the tournament and put in more effort and sacrifice seem to be traditional males," O'Reilly continues. "But others may choose not to play the game, including men and women who want more balance in their lives. Since we find no differences across groups in terms of satisfaction, it appears as though differences in career attainment are the result of choices rather than discrimination. However, the story for more aggressive women may not be so straightforward. This group seems to be opting out—perhaps because they don't fit the traditional gendered model. In the end, this study uses a very modest sample and while we find the results provocative, we hardly want to claim that this is anything more than suggestive."

— MARGUERITE RIGOGLIOSO

"Women's Careers: The Impact of Sex and Gender Identity on Career Attainment," Olivia A. O'Neill and Charles A. O'Reilly III, Stanford Graduate School of Business Working Paper No. 1775, 2004.

Organizational Behavior

Some Firms Pay High for Low CEO Skill

What do Disney, AT&T, Exxon, and Verizon have in common? Based on economic performance and what they paid their CEOs from 1991 to 2002, a new academic study argues that all these firms were headed by CEOs who were paid too much.

These firms' CEOs, say the researchers, had pay negatively related to job skill: The CEOs seemed to be rewarded—in most cases, quite amply—for their bad performance. Disney's Michael Eisner, for example, was paid $38 million above the industry average when for three out of six years the company's performance actually declined in relation to other firms in the entertainment industry.

JAMES YANG

"Lately there have been legitimate concerns about CEO pay," said Stanford Professor Robert Daines. In 1992, the average CEO of an S&P 500 firm earned $2.7 million. By 2000, average pay for these CEOs had increased more than 400 percent, to more than $14 million. When compared to the pay of average workers, the increase is even more dramatic: In 1992, CEOs were paid 82 times the average of blue-collar workers; in 2004, they were paid more than 400 times those salaries.

In baseball, "the best-paid players are also the most skilled," said Daines. "The main question is: Is the CEO labor market working in the same way? Do you make more money if you are better at it? Or is the market for CEO pay broken in that CEOs receive high pay for something besides skill—like having friends on the board?"

Daines, the Pritzker Professor of Law and Business in the School of Law, who holds a courtesy appointment at the Business School, studied the relationship of executive pay to executive skill. He and colleagues concluded that particularly in big firms, a high salary doesn't necessarily mean that a CEO is more competent than his or her peers.

First, the researchers defined a way to measure CEO skill. Although many studies have examined the relationship between CEO pay and company performance, Daines and his colleagues wanted to isolate specific evidence of executive competence. After all, company performance can depend on a number of factors beyond the power of an individual CEO: the economy, regulatory constraints, or industry conditions, to name just a few.

They decided that a firm run by a skilled CEO should consistently do better than its industry peers. More specifically, a skilled CEO should continue a firm's prior good performance and reverse poor performance. Conversely, a bad CEO would be more likely to continue a poor showing and to reverse the firm's prior successes.

The results were instructive: The study found that in small firms, highly paid CEOs generally are more skilled than their industry counterparts. The correlation is even stronger if the firm has a large shareholder or if the CEO has been paid largely in stocks and options. Conversely, pay is more likely to be negatively related to skill in larger firms. "In many large firms, the highest paid executives actually performed the worst," said Daines.

This was especially the case when the business was bound by what Daines called environmental constraints: regulations, limits on capital spending, or a very competitive climate. "Some CEOs have a lot of options to consider while making investments and other strategic decisions. Others are more constrained," Daines said. The lesson there? "When managers can do less to affect firm outcomes, there's less reason to pay them high salaries," said Daines.

In effect, the study identifies the kinds of firms where high pay would make sense and those where the money is perhaps wasted. In larger firms, especially those with a lot of constraints on CEO choices and no large shareholder to keep an eye on things, it doesn't appear to make much sense to pay exorbitantly high salaries. In smaller firms—particularly companies with a large shareholder—extra money paid to the CEO appears to be a much better investment, and highly paid CEOs appear to do better, suggesting that pay and skill are linked (as they are generally linked in professional baseball). In such firms, high compensation does not indicate a breakdown in the firm's governance.

Indeed, one very interesting result of the study is that incentive pay matters enormously in cases where there is CEO turnover in poor-performing companies. If the new CEO is paid more than his or her predecessor and if the pay is largely incentive-based, the new boss is more likely to reverse prior poor performance.

Finally, the study found that investors would do well to pay attention to which firms are paying their CEOs commensurate with skill. If, in fact, a company has hired a good CEO worth the money, then that firm represents a good investment opportunity. A portfolio that holds onto the stocks of firms with effective CEOs who are also highly paid and sells the stocks of companies run by poorly paid CEOs generates an annual rate of return of 8 percent above the market and other portfolios that control for risk characteristics. Thus, understanding which firms are run by highly skilled CEOs could be highly lucrative for investors deciding which stocks to hold or sell. — ALICE LAPLANTE

"The Good, the Bad, and the Lucky: CEO Pay and Skill," Robert Daines, Vinay B. Nair, Lewis Kornhauser, forthcoming, 2005. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=622223

Elections

The Logical Illogic of Casting Your Vote

WHEN VOTERS GO to the polls in democracies, they demonstrate in the flesh a phenomenon that has long troubled the political scientists who like to explain how elections work. To them, the fact that so many voters show up is a paradox.

Many observers of the U.S. electoral process have long bemoaned that only 50 to 60 percent of registered voters turn up at the polls, even for presidential elections. But based on most "rational choice" theoretical models of human behavior, citizens would not be expected to vote even in numbers as large as these. It is simply irrational—or so the theory goes—given that it is exceedingly unlikely that any single individual will influence the course of the election.

Rational choice theory is a way of looking at deliberations among a number of potential courses of action and deciding which one is best. In the case of large elections, with millions of potential voters, the rational assumption would be that a single person would be extremely unlikely to influence the outcome. Hence: Why bother?

"The chance of being hit by lightning as you go to the polls is higher than the chance that your vote will be pivotal in a large election," says Jonathan Bendor, the Walter and Elise Haas Professor of Political Economics and Organizations at the Business School. "If people were perfectly rational and found voting costly, they'd say, 'If I'm not going to be pivotal, I'll just stay home with my kids.' Yet many people *do* vote. There's something fundamentally askew with the theories."

At least there was until last May, when Bendor and two colleagues published a paper that proposed a new theory: that people learned—and adapted their behavior—based on whether the results of voting were satisfactory or unsatisfactory to them. The theory, called bounded rationality, is an idea expounded by the Nobel Prize–winning social scientist Herbert Simon, who pointed out that most people are only partly rational: Their reasoning is constrained by cognitive limitations and by emotions.

Called a model of "adaptive rationality," Bendor's theory marries two ideas: 1950s-style psychological learning reinforcement theory and Simon's notion of "aspiration levels." "It's basically very simple: An agent tries an action—in this case, voting—and if the payoff is satisfactory, then he or she is more likely to try that action again," Bendor says.

At the heart of the theory is the learning behavior of individual voters, who adjust their propensities to vote with each new election. The idea of "aspiration levels" is that every voter has a threshold that distinguishes a satisfactory outcome from an unsatisfactory one. If voting is associated with a payoff that is higher than that person's aspiration (or hoped-for outcome), then he or she is satisfied and will become more likely to vote next time. If the payoff is unsatisfactory, he or she will become less likely to vote.

"The chance of being hit by lightning as you go to the polls is higher than the chance that your vote will be pivotal in a large election."

"William James, the great American psychologist, once said that 'happiness equals *get* over *want*,'" says Bendor, adding that a voter's satisfaction with the results is not simply a reaction to winning or losing the election. Rather, it depends on how the winning party behaves after the election and how satisfactory or dissatisfactory that behavior ultimately is to the voter.

It's equally important to look at the reverse side of the theory: If someone *doesn't* vote and is unhappy with the results, then he or she will subsequently become more likely to change behavior and vote. This helps to buoy the voting statistics: Non-voters who are dissatisfied with the way the elections turn out may then come back to the polls and try again. Depending on their satisfaction with *those* results, their inclination to vote the next time may rise or fall in the next election. And thus the cycle starts again.

This model of voter turnout is just one of three that Bendor and his coauthors will use to write a book about elections.

Bendor's primary MBA teaching is on negotiation, which unites the strategic perspective of classical game theory with some appreciation of how people who are "boundedly rational" make decisions.

— ALICE LAPLANTE

"A Behavioral Model of Turnout," Jonathan Bendor, Daniel Diermeier, Michael Ting, American Political Science Review, *May 2003.*

Newsmakers

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

A long lasting love of film wasn't fulfilled through media company mergers, so Li-Anne Huang started directing short films.

MBA Finds Reel Love

A BANKER FROM SINGAPORE, **Li-Anne Huang**, MBA '03, went to Merrill Lynch in New York, where she worked on media company mergers and fell in love with film. Next, Huang studied the business of filmmaking at the Business School and then signed on as an assistant to director Sydney Pollack, who urged her to start small, directing her own films. She now has eight shorts, including *Singapore Girl*, which was partly financed with a grant from the Singapore Film Commission.

Part of the appeal of directing, she told the *Straits Times*, is that films communicate across cultures more than other media. "Because of the worldwide distribution, people from all parts of the world have access to the same films."

Web Log Eggnog

KIDS DO THE DARNDEST things, Art Linkletter observed, and Tom and Alice Bauer of Carmichael, Calif., have reason to agree: One of their six is giving away the family secrets.

Elise Bauer, MBA '88, persuaded her parents to share their time-honored recipes, including oxtail stew, with strangers via her Web log. "I come from an age when you held onto your special things, but Elise is very persuasive," Alice Bauer told the *Sacramento Bee*.

The younger Bauer is impressed with blogging. "This is a real community. We read each other's blogs and try each other's recipes," she says.

In a year's time, her site, *www.elise.com*, has gone from 100 visitors a day to 3,000.

And in the first Food Blog Awards sponsored by a Seattle website known as Accidental Hedonist, hers was one of four nominees for the best recipe blog, losing out to a site named Chocolate & Zucchini.

When the Saints Go Floating In

AMONG GREEK GODS and goddesses who attend Mardi Gras, none come closer to the perfection of the figures on the Sistine Chapel ceiling than those sculpted from plywood and foam by the merry crew at Royal Artists, the year-round float production company owned by **Herbert Jahncke**, MBA '67.

Now a bearded, suspender-wearing employer of 15 New Orleans artists, Jahncke was an executive in the family concrete business when he joined martini-fueled brainstorming sessions with a legendary carnival float designer and got hooked on restoring 19th-century grandeur to rolling theater, according to the art critic of the *Times-Picayune*.

A stickler for historical accuracy, Jahncke sometimes gets into disputes with clients who want to put more than the traditional 14 riders on floats. Said one client willing to pay $35,000 for Jahncke's work: "He is a very dedicated and creative individual."

Managed 401(k)s Wave of the Future

MBAS MAY BE an exception, but most American workers don't feel they have the time, expertise, or inclination to invest their retirement funds wisely. That's why "the vast majority of 401(k) plans are not working," **Jeff Maggioncalda**, president of Financial Engines, said at a November conference on pension investing in San Francisco. His remarks were reported by Crain Communications.

Maggioncalda, MBA '96, heads the Palo Alto–based investment advisory firm that collaborates with Vanguard and other 401(k) providers to offer some workers the option of purchasing professional money management for their employer-based retirement accounts. (Financial Engines was founded by **Bill Sharpe**, Nobel laureate and professor emeritus at the Business School.)

Managed 401(k) accounts are the wave of the future, Maggioncalda told the conference. Ann Combs, assistant U.S. secretary of labor, added that the department supports making managed accounts the default option for participants enrolled in 401(k) plans.

Palestinian Reformer

DR. **Mustafa Barghouthi**, Sloan '95, finished second in the Palestinian presidential election to replace the late Yasser Arafat. A physician and human rights activist, Barghouthi has been "a consistent advocate of ending the Israeli occupation by nonviolent means," according to the

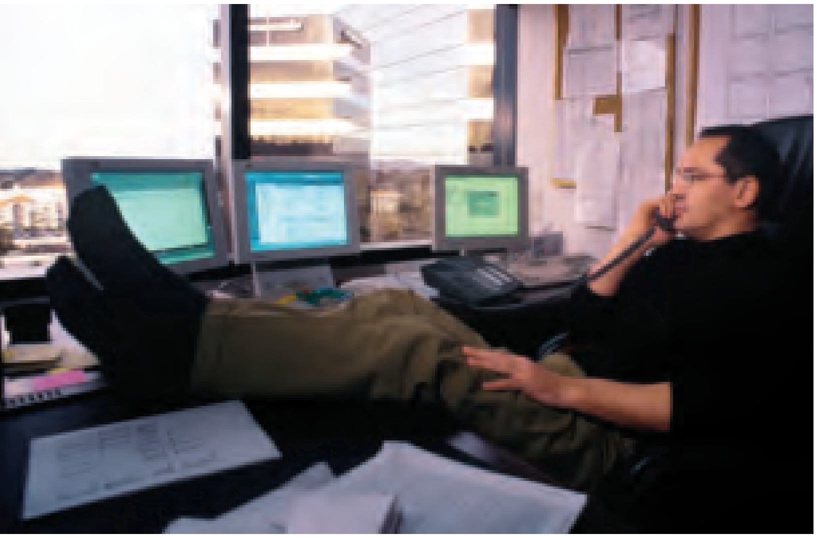
ASHLEIGH SIM

AP/WIDE WORLD VIA EPA

Mustafa Barghouthi, Sloan '95, shakes hands with a Palestinian voter during his race to replace Yasser Arafat.

Straits Times. He garnered 20 percent of the January vote in the 7-candidate race and promised that his 3-year-old National Initiative political movement would field multiple candidates for the parliamentary elections in July. Fatah, the dominant Palestinian political party, needs an opposition committed to the democratic process, he said.

"Barghouthi, 50, represented a younger Palestinian generation keen for an end to one-man rule, corruption, and chaos that was rampant in Arafat's last years," *Reuters* reported.



After 10 years of hedge fund investing, Larry Bowman is handing the reins to other managers.

Hedge Fund King Closes Shop

HE "RODE THE ECONOMIC roller coaster in the front car" to amass a fortune as a hedge fund manager, *Fortune* magazine says, but now **Larry Bowman**, MBA '87, is turning his money over to other managers. "Investing in public tech companies is a young person's game," says Bowman, who set up his Silicon Valley shop in 1995, earning 92 percent the first year and 71 percent the next.

Bowman got caught on the short side of a post–9/11 market rally in 2001, however, and ended up down 36 percent. He decided to return $4 billion to investors and later quit managing his own investments. "After 17 years of 24 hours a day, the pace is better now," he says. "I learned that volatility is just a euphemism for losing money."

Calling All Countries

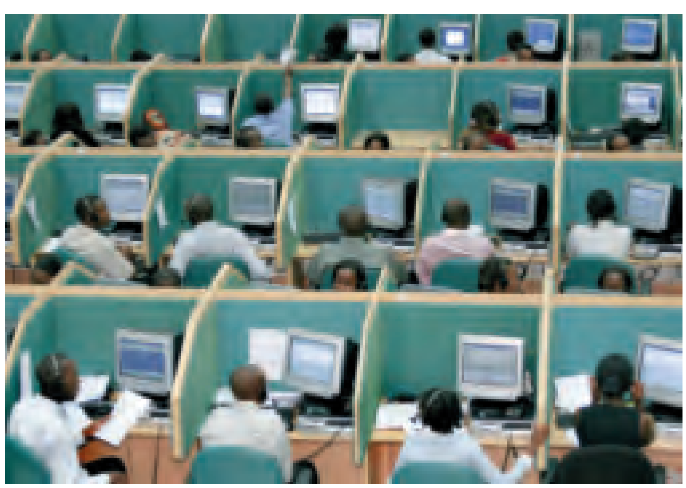
NEXT TIME YOU are trying to guess the location of a telephone sales or customer-service agent, consider Nairobi, Lahore, and Karachi.

KenCall, Kenya's first call center employing about 200 mostly college-educated Kenyans, opened in November. It is the dream of **Nicholas Nesbitt**, MBA '91, who returned to Kenya after the nation underwent a promising political transition in late 2002. His challenges included getting a costly satellite hookup and generator system, but, he said, he was pleased not to have doled out any bribes—"not even so much as a cup of coffee."

India call centers make headlines, but Pakistan is also a great place for a teleservices business, according to **Zia Chishti**, MBA '97, founder and chief executive of the Resource Group, a 3-year-old teleservices company that operates in Lahore and Karachi, Pakistan. Chishti's company acquired Pennsylvania-based Telespectrum last October, according to *Dow Jones News Service*. "We now have over $130 million in revenues and over 3,000 people," Chishti said. At an industry conference in Islamabad, he said a skilled labor force and a helpful government were driving Pakistan's information technology growth, reported *Pakistan Press International*.

Not long after the Nairobi center opened, international media outlets came to investigate. "I guess it is so rare to hear positive stories coming out of Africa that they all wanted to get their angle," Nesbitt wrote to his Business School class secretary following the appearance of stories in *The Nation, New York Times,* and *International Herald Tribune*.

Nicholas Nesbitt, MBA '91, opened this call center in Nairobi last November. Zia Chisti, MBA '97, operates two centers in Pakistan.



EVELYN HOCKSTEIN/THE NEW YORK TIMES

From Virtual to Real Estate

Charles Brewer, MBA '87, has left virtual turf for bricks-and-mortar reality. The creator of Mindspring, an Internet service provider that was merged into Earthlink, bought 28 acres of former industrial land near downtown Atlanta where he is applying concepts from "new urbanism" that are supposed to foster a sense of community and reduce driving.

"I had always thought of developers as destroyers," he told the *New York Times*. "I just don't like a lot of what's being built—garage doors facing the streets, walled-off subdivisions, and commercial pods with big parking lots." Detached homes and row houses in his Glenwood Park nestle beside shops and small office buildings. They were selling last winter for $150,000 to $700,000.

Chief Swoosh Benches Himself

BRILLIANT MANAGERS don't just innovate; they hunker down into "mundane details" when necessary, *BusinessWeek* said in an article about **Phil Knight**, MBA '62, who announced in November that he was stepping down as CEO after 40 years at the helm of Nike. Retaining his title as chairman, the largest Nike shareholder said he wanted to give the new CEO, William Perez, time to "do nothing but learn."

Knight "forever changed the rules of sports marketing with huge endorsement contracts and in-your-face advertising" during the 1980s and 1990s, *BusinessWeek* said, but then changed his style to "transform a volatile, fad-driven marketing and design icon into a more shareholder-friendly company."

Picking Investments By Picking Brains

A NOVEL BUSINESS MODEL for picking investment fund managers is garnering attention because of its results. Money-management veteran **Ken Kam**, MBA '86, created the Marketocracy Masters 100 (MOFQX), a portfolio whose picks are made by ordinary people who seem to have a knack for producing above-average returns. The $62 million fund is up 8 percent on average annually over three years, versus 3 percent for the S&P 500, *Fortune* magazine said.

About 70,000 investors run hypothetical portfolios on Kam's website. Each month, software picks the 100 best and then models the mutual fund after their holdings, weighted by performance and consistency.

Having worked in the medical field earlier, Kam says, he realized that people who have experience in a given industry might be better at picking investments than professional fund managers. His system tries to capture such varied expertise. ■

Save the Date!

Join us for the Fall Alumni Weekend and reunions. **Rediscover** the GSB. **Reconnect** with old friends. Make some new friends. **Rejuvenate** your spirit. It's sure to be an event you won't want to miss!

https://alumni.gsb.stanford.edu

2005

GSB ALUMNI WEEKEND and REUNIONS
OCTOBER 21 – 22

upcoming events

May 11: "A Blueprint for Change," an executive education breakfast briefing by Jacqueline Novogratz, MBA '91, CEO, Acumen Fund

May 12: "The Value of Life and the Cost of Medicine," by Stefanos Zenios, GSB professor; a Lifelong Learning Web seminar for alumni/ae

May 16–17: Alumni/ae gatherings featuring "The GSB: Then, Now, and in the Future," by Dan Rudolph, MBA '81, GSB senior associate dean; May 16: Salt Lake City; May 17: Denver

May 19: Stanford Alumni Consulting Team volunteer recognition/ recruitment party at Nueva School in Hillsborough, Calif.

May 20–22: France alumni chapter holds a weekend in Menton, France, to see the Grand Prix de Monaco

June 1: Conference on Corporate Excellence, Arrillaga Alumni Center

June 8: "Building Effective and Efficient Personal Networks," an executive education breakfast briefing by James Baron, GSB professor

June 10: France alumni chapter tennis tournament in Meudon, France

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

July 31–August 5: "Executive Program in Philanthropy," a new program offered by the GSB's Center for Social Innovation

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

September 20–24: "Interpersonal Dynamics for High-Performance Leaders," a Lifelong Learning program open to GSB alumni/ae only, San Jose

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

November 4–6: "GSB Back to School," a residential alumni education program with GSB professors

November 10–13: "Bridging the Gap: Leading Social Innovation Across Sectors," Net Impact 2005 conference

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 7

information center

Stanford Graduate School of Business
518 Memorial Way, Stanford University
Stanford, CA 94305-5015
650.723.2146
www.gsb.stanford.edu

Business School Alumni Center
650.723.4046
Address updates, email, and alumni directory: 650.725.3254
Email: *alumni_admin@gsb.stanford.edu*
https://alumni.gsb.stanford.edu

Alumni Career Services
650.723.2151
Email: *cmc@gsb.stanford.edu*

Alumni Chapters
Patricia Dwyer: 650.725.2471
Email: *dwyer_patricia@gsb.stanford.edu*

STANFORD
GRADUATE SCHOOL OF BUSINESS

Alumni Consulting Team (ACT)
April Gilbert: 650.725.3028
Email: *info@stanfordact.org*

Jackson Library Database Access
650.725.2055

Lifelong Learning
Erica Richter: 650.724.7367
Email: *richter_erica@gsb.stanford.edu*

MBA Career Management Center
Recruiting: 650.723.2152
Email: *cmc@gsb.stanford.edu*
www.gsb.stanford.edu/cmc

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

Make a Gift
650.723.3356
www.gsb.stanford.edu/giving

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

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

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

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

StanfordKnowledgebase newsletter
www.gsb.stanford.edu/knowledgebase

Stanford Social Innovation Review
650.725.5399
www.ssireview.com

@GSB Today newsletter
https://alumni.gsb.stanford.edu/gsbtoday