STANFORD BUSINESS





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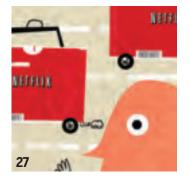
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STANFORD BUSINESS

AUGUST 2008 • VOLUME 76, NUMBER 4



COVER STORY: PREVENTING CORRUPTION

16 Lessons from the Scandal Front

Alumnus Douglas Brown describes his experience cleaning up a state agency after a few bad apples spoiled the barrel.

-By DOUGLAS MINGE BROWN, MBA '61



Douglas Brown, MBA '61, outside the New Mexico State capitol building in Santa Fe.

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Prescriptions for Preventing Cheating

To minimize corruption, leaders must pay attention to incentives, say those who study and teach ethics.

-By MARGARET STEEN

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Corruption Costs Businesses Competitive Advantage

Research by Ernesto Dal Bó shows corruption sidetracks workers from jobs that could help a country's economy grow.

-By MARGUERITE RIGOGLIOSO

 ${\bf ON\ THE\ COVER:}\ Photograph\ by\ Fredrik\ Broden.$

MORE FEATURES

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The Story Behind Our New Look

AS A KID IN 1920s CHICAGO, **Gabriel Almond** and his friends hung out summers on the beaches of Lake Michigan. They loved the clean sand, but they also took pride in the air quality.

"We saw the floating slag of ashes arriving from the steel mills in South Chicago and Gary, and we thought, 'that's progress," Almond told me with a grin and a shake of his head one day in 1993. He was then an 82-year-old professor emeritus of political science at Stanford, well aware of the downsides of the industrial revolution.

That image of youth standing in awe of belching factories comes to mind whenever I find myself trying to be an environmentally conscious manager of this organization. What do our readers and the population at large expect of us today, and what will they expect tomorrow? To be forward thinking, it seems to me, you have to appreciate both history and new knowledge that come along regularly to reinvent the future.

In the new-knowledge category, I recall my own teenage years in the 1960s. Arriving home from



school one day, I found Grandmother O'Toole reading Rachel Carson's *Silent Spring*. Looking up from the book, she asked me if I had heard any birds on my walk home. I shrugged my shoulders, I suppose. She said that she had been missing the birds singing for a long time, but until Carson's book she had not realized their decline might be attributable to DDT, a chemical her son, my father, was using on our farm.

Since Carson, many others have brought us new evidence for alarm. My predecessors at this magazine had the foresight to switch from petroleum-based inks to ones made from soybeans once the risks to the envi-

ronment and health were clearer. History tells us no organization can rest on its laurels.

When you picked up this issue of the magazine, did you notice that it looks and feels different? My colleague **Arthur Patterson** recently went shopping for paper that would use fewer trees. The trend among responsible publishers is to use paper that prints well with the least new wood and greatest amount of recycled content, especially post-consumer waste, as opposed simply to recycled material from print overruns. At this time, the best match to our needs was paper from Italy. But when we thought about the greenhouse gases created by transporting paper for 26,000 magazines from Italy, we decided instead to press North American manufacturers to do better.

This issue is printed on papers that are, on average, 58 percent from post-consumer-recycled material. Our estimates, based on the Paper Task Force in which the Environmental Defense Fund participates, are that we used 111 fewer trees than on the last issue. In addition the paper production used 38,796 fewer gallons of water and 71 fewer British thermal units of energy. It created 5,291 fewer pounds of solid waste and 9,587 fewer pounds of greenhouse gases. The paper also cost 14 percent more in dollars, but I am happy to make up some of that cash by forgoing a new picture of my gray hair and wrinkles.

Environmentalism is here to stay, Professor Almond told me in 1993, because we are too smart now to accept the Western idea of an "unproblematic progressive future." There is no turning back from technology, he said, but it needs to be managed now as much to solve problems as to improve standards of living. It's not surprising then that the GSB would be at the forefront of such efforts. The magazine had to change to keep up with the rest of the School. If I sound satisfied, don't believe it. Like many of you, we realize this is only one step on a path that requires many more ideas.

Kottlen O Tosle

EDITOR

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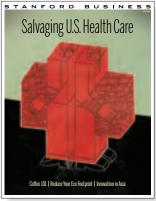
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WE PRINT GREEN - WE SAVE TREES

Letters to the Editor



Readers' Thoughts on Salvaging U.S. Health Care

"People have been saying for a long time that [the U.S. health care system] can't go on much longer this way," Enthoven said. But, it's not clear that public anger at the situation has reached a point that will force fundamental change.

I WOULD ARGUE that the above quotation is the most salient point in the various health care pieces covered in the May 2008 issue. Alain Enthoven [the Marriner S. Eccles Professor of Public and Private Management, Emeritus] started at Stanford about the same time I did, a time when it had become fashionable for business schools to redirect some of their focus away from profit-optimization modeling to public policy issues. It was clear even then that the delivery system was living on borrowed time and was a disgraceful portrait of inefficiency, disincentives, misincentives, and perhaps just plain sloth/stupidity.

My two years prior to entering the Business School in 1972 were spent as assistant director of clinical administration in Framingham Union Hospital in a suburb of Boston and most famous for the heart study. I suspect the Admissions Office assumed I would be part of an emerging generation of trained MBAs who would put Enthoven's wisdom to work. Little did they know I was escaping—running for my life! It had been like playing basketball without hoops. Scorekeeping was limited to the inane practice of creating a budget based on the previous year's actuals and not exceeding it. Brilliant!

We're now into 35-plus years of intellectual examination of a very sick patient. Despite some very fine work by our best and brightest, the patient is not only not better, it is decidedly worse.

Transformative change requires enormous financial gain potential, widespread fear and anger, or just dumb luck. I wouldn't count on the latter but some convergence of the first two is inevitable.

Jim Noyes, MBA '74 Carbondale, Colo.

AS AN MD AND STANFORD MBA, I felt that the discourse on health care costs is not complete without an analysis of the hungry gorilla in the room. The HMO was forced on the medical system with a major cost structure and a questionable rationale. An analysis is overdue of whether over 30 percent of the health care dollar has been well spent. From a business point of view, a cost/benefit analysis would be worth it. All the other items will fall into place if the question of whether the HMO is part of the problem or the solution can be clearly answered.

Robert S. Rosenberg, MD, MBA '52 Corona del Mar, Calif.

THE ARTICLE "SALVAGING U.S. HEALTH CARE" had little to offer in the way of salvaging anything but the same old thinking. Let's shift the conversation to a more constructive and creative level.

Why be more timid in funding the cost of health care than funding the cost of war? What is the job creation prospect in providing health care for all? Eliminating health insurance as an *employer expense* would make our businesses more competitive. Shouldn't the question be "What forces of innovation will eliminate this model while providing excellent health care for all?"

How can we get more value from the health care dollar? As with most social enterprises, outcome studies are lacking. Don't we need a secure national health electronic infrastructure—that includes all patient records—to evaluate outcome data or identify best practices?

Cheryl Lilienstein, Physical Therapist *Palo Alto, Calif.*

Inside Scoop on Arbuckle History

I GREATLY ENJOYED the **Ernie Arbuckle** article in the May 2008 issue, as I'm sure did all of my MBA '68 classmates. He was an extraordinary leader.

But the story behind the football game events is a bit more complex than stated. Getting to lead the Stanford contingent in a cheer was a hotly desired prize, one that all students could vote on—at a penny a vote, if I recall. There was a table near the bookstore where anyone could vote. The tally was publicly shown, so everyone knew who was winning at any point, and students could add votes if their favorite professor started falling behind.

This was at the height of the Vietnam War, and I can assure you that no undergrads were voting for Ernie—they didn't know him, indeed probably never heard of him, and the GSB represented everything that the undergraduate body didn't like in those days. This was the era when **David Harris** was elected student body president and the main administration offices were taken over by protesters.

Some GSB student—I don't remember who—organized a campaign to get Ernie elected to lead the cheer. We knew he planned to retire after 10 years at the helm, following his philosophy of repotting every decade, and this seemed like a nice reward. But the campaign was within the GSB only, a stealth effort to the rest of the campus.

Obviously I can't prove that no undergrads voted for him, but he had very few votes until the moment when the GSB money got plopped down, and no one could overcome the big lead for Ernie.

And, of course, he did a great job leading the cheers.

Jon Holman, MBA '68 San Francisco

I WAS SO TOUCHED by how you caught the essence (of Ernie Arbuckle) 22 years after his death and 40 years after he received the first Arbuckle Award.

Part of the essence was contained in the photos: The wonderful bust shot reflecting his vigor, enthusiasm, interest, and good looks; the family shot reflecting his compassion, love of family (and animals), and showing my mother, who was responsible for a large part of his success by always being the "hostess with the mostess" and housing an endearing and enduring love and respect for him and people in general; and the shots of the infamous "Give 'Em The Axe" yell that he poured his heart and soul into because of his very deep love and commitment to students, faculty, parents, friends, the GSB, and Stanford in general.

The legacy my father left at the GSB makes me grateful for the eternal gift he gave to so many of us of his heart, soul, beliefs, visions, and commitment always mixed with love, honesty, integrity, and humor.

Thank you for such an excellent article with so much feeling.

Joan Arbuckle San Antonio, Texas

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September 7–12

September 28–October 3

October 12–17

November 9–14



Executive Challenge: A Reality Check

IT WAS QUITE A MOMENT when the winners were announced. In fact, the entire adrenalin-charged Executive Challenge competition was downright inspiring. It brought together alumni and students who were pumped up and ready to give and take advice. Students cheered as they realized just how far they had come and what great relationships they had formed. Last year was the first time all entering students went through the leadership program, which culminated with the Executive Challenge, as part of the new MBA curriculum. Here is a taste of what that Executive Challenge was like and what the next incoming class can expect.

"We were really intimidated going in," said Brad Hively, Class of '09. "It's kind of terrifying having to present to five executives with all our peers watching. But everyone did well. It was a real confidence booster." Arsen Kitch, Class of '09, remembers: "I walked into my first role play ... and found the former CEO of PepsiCo, my pre-MBA employer. Here he was judging my performance. The quality of the alumni feedback was outstanding. It was valuable to practice what we learned in a realistic setting."

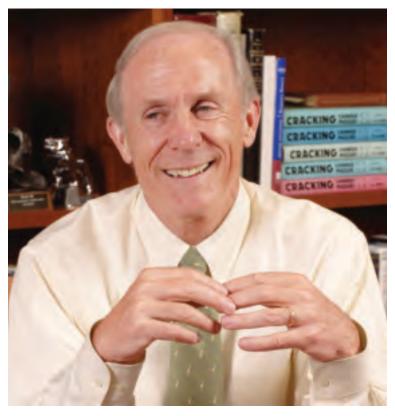
The portfolio of fall courses for entering students includes Strategic Leadership, taught by Professors Garth Saloner and Charles O'Reilly, who cover strategic insight and execution. As part of the course, all 372 first-years will go through a series of team-based, situational exercises designed by Evelyn Williams, director of the Leadership Laboratories in the Center for Leadership Development and Research.

Working in squads of 8, students collect data about themselves in their first 10 weeks. This includes feedback from their peers, from videotaped interactions, and from Leadership Fellows, second-year students who serve as coaches. This is an opportunity for 35 second-years to

learn how to mentor a team. "Leadership is as much about impacting and empowering other people as it is about taking control," said Paul Blanchfield, MBA '08, who was among the first cadre of Leadership Fellows and who led a team of eight last year. "Suddenly the real world doesn't look quite so challenging."

The final test in the leadership program is the Executive Challenge competition. The judges: GSB alumni. Last year 162 alumni arrived from as far away as Germany, Japan, Korea, and the United Kingdom. They took part in a series of role-plays in which students had to present strategic options from a case and get sign-on from a board of directors and protagonists played by alumni, including real-life venture capitalists, CEOs of public companies, and senior executives from Fortune 500 firms.

Students sweated, worried, pondered, huddled with teammates, and ultimately emerged with new skills and new understandings. One of my favorite comments came from Jim King, MBA '77: "The most



Students sweated, worried, pondered, huddled with teammates, and ultimately emerged with new skills and new understandings.

> important lesson for them to learn is seeing outside their own point of view." In some sessions, students had to rethink strategies on their feet. It wasn't exactly American Idol, but the judges didn't hold back on instant feedback.

> Here are some excerpts of alumni feedback given to students: "Presentations are not descriptions. ... Asking a board's opinion is commendable, but it can end up being a tangent. Debate among board members is not advancing the ball. ... Enough happy talk: Where are the issues? Get to the point.... They could have tried to better understand the individual interests of the board members. ... Be careful in meetings not to be too casual by calling board members 'you guys.' ... You have to put yourself in your audience's shoes. ... Don't ask a decision group, 'What do vou want to do?""

> We want our students to motivate others, to persuasively navigate and lead projects to conclusion. What better resource to include than our alumni? As one alumna put it, "This is one of the more fulfilling interactions I have had with the GSB." I am full of enthusiasm for the curriculum we now have in place. It is packed with management perspective, depth on the basics, and leadership development. With this approach our students are armed to change lives, change organizations, and change the world.



Seeking Solutions, Educating Leaders.

GSB Goal for Faculty Support: \$95 million Progress to date (as of 5/31/08): . . .

Every gift to the GSB counts toward The Stanford Challenge. For more information, see www.gsb.stanford.edu/giving

TOP PHOTO BY JONATHAN SPRAGUE. BOTTOM PHOTO COURTESY OF KUMAR KALESH.

HAT'S UP: NEWS ABOUT THE GSB AND ITS GRADUATES



Dean Robert Joss, MBA '67/PhD '70, and Senior Associate Dean Dan Rudolph, MBA '81, review plans for the Knight Management Center, the Business School's new campus, represented here with a working model.

Trustees Greenlight New Campus

HE STANFORD BOARD OF TRUSTEES approved the design in June for the Knight Management Center, the new home for the Business School. Designed as eight small buildings, it will meet high standards of environmental sustainability as well as serve the needs of a more dynamic MBA curriculum and cross-campus collaboration. The 360,000-square-foot campus will be directly across Serra Mall from Schwab Residential Center and will be about onethird larger than the existing three-building campus.

Construction begins this fall on the underground parking structure, with occupancy slated to begin in late 2010.

She Did It by Numbers

At the Business School in the '70s, Michelle Clayman met two of the great loves of her life: computers and modern financial theory. "And they, unlike some of my loves, have stayed with me," the 1979 MBA joked with an audience gathered at New York's Rainbow Room on April 2 to witness the School present her with its 2008 Excellence in

Leadership Award.

Clayman is the founder, managing partner, and chief investment officer of New Amsterdam Partners LLC, an institutional money management firm in New York that she launched in 1986. A frequent commentator on CNBC, Bloomberg, and other financial media, she sits on the boards of the Society of Quantitative Analysts and the Institute for Quantitative Research in

Finance. She is also a champion of women's issues, having supported the Michelle R. Clayman Institute for Gender Research at Stanford.

Clavman came to America from the United Kingdom seeking banking opportunities. Colleagues at Bank of America encouraged her to apply to the GSB, where she learned quantitative methods for investing and, she said, knowledge she still uses at least once a week. After school she worked at Salomon Brothers, where she tried to persuade money managers to use quantitative methods. "At some point the light bulb went on: Why am I showing other people how to do it? Why don't I try doing it myself?" she said.

Although Clayman is the first woman to receive the Excellence in Leadership Award, the School Alumni Association recognized former Santa Clara County Supervisor Rebecca Morgan, MBA '78. with its Ernest C. Arbuckle Award for leadership in 1999.

Corporate Boards Seek **More Women Directors**

If you're a woman in business, now is the chance to join the ranks of that most exclusive of clubs—the corporate board of directors.

"Board membership is a great mechanism to help alumnae boost their network, to remain involved in their field while temporarily out of the workforce or in retirement, or to give back to the community," said Nicole Sermier, MBA '05, who organized a panel discussion on the topic in New York in March. The Women's Initiative Network. an organization for Stanford students and alumnae, sponsored the event.

Although acceptance of women on boards has been slow. "there's never been a better time for nontraditional candidates who want to serve on for-profit boards," said Julie Daum of Spencer Stuart, the executive search firm. Over the past three



Nicole Sermier, MBA '05

years, one third of the new directors appointed to join boards of S&P 500 companies have never served as a corporate director.

Why the turnover? One reason is a dramatic change in the search process for board members. CEOs used to do most of the interviewing and hiring of prospective board members, but the Sarbanes-Oxley Act of 2002 put pressure on governance

committee members to take over. Fewer CEOs-the traditional candidates for membership—now choose to join boards. Also, over the past decade or so, directors have stepped up efforts to hire women and minorities.

But be careful what you wish for. If the company is in a crisis, the time commitment can balloon, warned Debra Perry, a board member of Conseco and Korn/Ferry International who recently resigned from the board of MBIA. Board members also face the potential of litigation related to their board service and need to understand the limits of their responsibilities. And, if the company receives bad press, Perry said, "You put your own reputation at risk."

Global Outlook Needed for National Leaders

Sixty years ago, **Henry** Segerstrom, MBA '48, and his classmates graduated into a world that hadn't heard of credit cards, personal computers, or global supply chains.

"But the world has changed since then and is due to change more," Segerstrom told members of the Business School community gathered to honor him as the 38th recipient of the Arbuckle Award, which recognizes alumni who have demonstrated a commitment to both management and society.

Segerstrom is managing partner of C. J. Segerstrom & Sons, a diversified real estate development and management firm that began as his family's farm. He has been involved in many charitable organizations and, back in the 1970s, collaborated with the Business School in sponsoring one of the first classes in nonprofit management.

"During the next 60 years, our

For the Record



Class of 2008 Commencement

DEGREES GRANTED	
Total MBAs	374
MBA	347
JD/MBA	4
ED/MBA	23
PhD	22
Master's in Business Research	3
MS (Sloan)	46
CERTIFICATES	

Global Management Public Management MBA AWARDS

Ernest C. Arbuckle Award

Contributed most to the fulfillment of the goals of Stanford Business School in and out of the School: Adam Anderson

Henry Ford II Scholar Top scholar: Alan Resnikoff

Alexander A. Robichek Award Achievement in finance courses: Laura Nisonger

Arjay Miller Scholars

Top 10 percent of the class:

Michael Saul Abramson Frederick Antwi Edward Scott Baker Forrest Floyd Baringer-Jones Parker Robert Barrile Luke Richard Baxter Robert Worrell Bland Jennifer R. Bolson Andrew Lilienthal Cantor

Christopher George Carter

Benjamin Zher Yen Chan Ian Chiu Carolyn Elizabeth Davies Andrew Pond Davis Ross Alexander Davisson Stephen Oster Fair Lance William Fenton Andrew David Fishman Benjamin Thompson Gambrel Kristen Gasior Yuval Hagai Grill Aly Hadibhai Christopher Andrew Harris Robert Lowell Holmes Flavio Ribeiro Iglesias Lucinda Robinson Keppel Alon Ralph Krashinsky Teresa Lee



Dean Emeritus Arjay Miller

Andrew Henderson Malcolm Jules Andrew Maltz Kevin Paul Quilliam Alan Henri Resnikoff Alex John Rolfe Fabio Santini Matthew Steven Spetzler Celina Beth Zlotoff

free enterprise system may be threatened by changing world economies," Segerstrom said. "Certainly, America's strength may be less dominant, and sovereign involvement in America's business and commerce from abroad may warrant responsive corporate governance and national policies.

"We must train new national leadership—in business as well as government," the honoree said. "Thinking and training only in domestic leadership will no longer be enough to serve our nation's needs."

Waiter, There's a Glacier in My Fettucini

Global warming is no laughing matter. Or is it?

Grist, a nonprofit, online site for environmental news and policy, has reached an audience of close to one million largely by injecting humor into an otherwise mirthless topic. Grist founder Chip Giller was among journalists who came to Stanford last winter to discuss how climate change can make more headlines. The event was organized partly by the Business School's studentrun Environmentally Sustainable Business Club and was partially funded by David and Heidi Welch, MBA '90.

In a media culture driven more by so-called reality shows than by reality, slowly melting glaciers face an uphill battle to make the nightly news, "Environmental stories tend not to break overnight. They tend to ooze over time," Giller said. Readers will sometimes shrug off even the biggest environmental stories, thinking, "But didn't that ice shelf break off last week?"

One solution that has worked well at *Grist.org* is to feed readers bite-sized morsels of news rather than platters. "We've interviewed most of the presidential candidates, but that's not really what brings readers in," Giller said. He finds people are more interested in topics like whether it's OK to recycle a beer bottle with a squeezed lime wedge stuck inside. (According to Grist's popular advice column, the answer is yes.)

Poetry can work too, said Giller, who recited a haiku he said was well received by

Quotable

"Most likely it's you and many other people who were responsible for the success that you have, so treat people well."

Miriam Rivera, JD/MBA '95, accepting the 2008 Jerry I. Porras Latino Leadership Award in March. The former vice president and deputy general counsel of Google was elected a Stanford trustee a week after receiving the award.





Grist readers:

A frog in water

Doesn't feel it boil in time.

Dude, we are that frog.

As they say at Grist: "Laugh now—or the planet gets it."

Frisco Kid Sticks to His Guns

As the California Supreme Court debated the constitutionality of a law banning same-sex marriage, the San Francisco mayor who famously ordered his city to provide marriage licenses to gay couples was talking to a Business School audience about the lack of leadership in politics.

"A lack of risk taking is the biggest problem in politics today. We like politicians who shake things up in the abstract, but when they really take action, people complain," Mayor Gavin Newsom said during the March 4 View from the Top speech.

Most political leaders, he said, end up taking the easy route. "In politics, we can abdicate responsibility and play the blame game and still get elected," he said.

Newsom took the other route and, against the advice of pundits, successfully implemented health care in San Francisco for all individuals up to age 24. He also instituted universal preschool and guaranteed high school graduates a four-year college education.

As for the personal cost of being a trailblazer on the issue of gay marriage, Democrat Newsom said, "I got calls from every major Democrat saying, 'What the hell are you doing?' To this day, many Democratic politicians want nothing to do with me. Two major churches in San Francisco have rejected me. I have family members who are still outraged with me. People say there's no way I'll be elected to anything else." Nevertheless, Newsom told the students, "Sticking to your principles is bliss."

Book on Business Life Explores Spouse's Role

When last we wrote about Steve Miller, MBA '68, on the 30th anniversary of his graduation from the Business School, the veteran of corporate turnarounds was in the process of handing off leadership of yet another salvaged corporation so he could resume his retirement building model railroads. As chairman of environmental services company Waste Management, he was expecting a

celebration at the next annual meeting, but we learn from his new autobiography that instead Miller found himself among the startled and hushed observers who watched the new CEO enter the hotel ballroom in a wheelchair and incoherently deliver a one-page speech. It turned out that the savior Miller had found for Waste Management had an incurable brain tumor but would not admit it. Restatements of corporate profits followed, and Miller was forced to become temporary CEO.

Such stories in Miller's book, *The Turnaround Kid*, are part of what surprised *Fortune* senior editor Allan Sloan, who writes that he picked up the book expecting to "be bored by the usual braggadocious PowerPoint prose and toss it within 10 minutes. Instead I got hooked on the personal stuff."

The book begins with another brain tumor, that of Miller's wife, Maggie, who died in August 2006 while he was furiously negotiating with the United Auto Workers, General Motors, and others to salvage auto partsmaker Delphi. Writing shortly afterward, Miller details not just his business experience with some of America's most promi-

nent companies but his fiercely loving and sometimes contentious marriage with the person he considered his most reliable mentor about business. "We both believed in hard work, the contributions healthy companies make to communities, and our obligation to help when we can," he says, adding that it was Maggie who sometimes persuaded him to take on new corporate basket cases.

Although reviled at times in Detroit, where he now lives with his second wife, Miller may well have saved what's left of Motown's three automakers, Sloan suggests. That's because Miller forced the companies and unions to compromise on retirees' pensions and health care to save Delphi. Given the twists and turns of American business, however, Miller himself is likely to be among those waiting to see what the next chapter brings.

InBev's New Brew

Running an international company can be a no-frills experience, according to **Carlos Brito**, MBA '89, CEO of Belgium-based InBev, the world's second-largest brewer and the bidder in June for storied American brewer, Anheuser-Busch.

Other than an aggressive compensation system, InBev offers few of the usual trappings of corporate largess. Executives don't get company cars, and they certainly don't receive free beer, Brito said in a February speech sponsored by the School's View from the Top and Global Speaker Series.

"We don't have corporate jets,"



Carlos Brito, MBA '89

TOP RIGHT PHOTO BY GREGG TEMKIN. BOTTOM LEFT PHOTO BY STEVE CASTILLO

he said. "I don't have an office. I share my table with my vice presidents. I sit with my marketing guy to my left, my sales guy to my right, my finance guy in front of me," the better to hold a steady stream of impromptu meetings.

Brito believes that developing a cohesive corporate culture that trains leaders from the ground up and rewards strong performers based on merit is an important ingredient in financial success. While some businesses prefer to hire midcareer employees who have cut their teeth elsewhere. InBev seeks recent graduates and molds them into leaders.

Brito is his own best example. He joined the Brazilian brewer AmBev straight out of the Business School and worked his way up to CEO. In 2005, AmBev merged with the Belgian beer maker Interbrew to form InBev, and Brito was appointed CEO of the new company.

Start-Up Life Is Not for Everyone

As a young Business School graduate Stephen Ellis, MBA '90, founded his own company. But it slowly dawned on him that his new entrepreneurial career wasn't really inspiring him and that he would be happier in a more traditional corporate setting. He joined Bain & Company in 1993 and today is Bain's worldwide managing director. But Ellis finds he still is asked: "What are you going to do next?"

"My simple response to that is: I think I have one of the best jobs in the world and I couldn't imagine doing anything other than this for as long as my partners will have me in this role," said



Stephen Ellis, MBA '90

Ellis during a View from the Top speech in January.

Ellis said his first professional move after Business School was shaped by second-year electives in venture capital, entrepreneurship, and small business management. Another career influence was "a lot of hype that was going on around campus with respect to startups—and, frankly, a little bit of peer pressure," he said.

And so, instead of accepting a corporate post Ellis cofounded a consulting firm, Focus, after graduation.

"As I was struggling as an entrepreneur—and, frankly, an only modestly successful oneone of the things I realized was I wasn't really in my zone. I didn't feel like what I was doing was really inspiring me and generating a sense of passion. In some respects, it actually felt like I was running in the sand. You know how that feels? You're making progress, but you're doing so with twice the effort and half the pace."

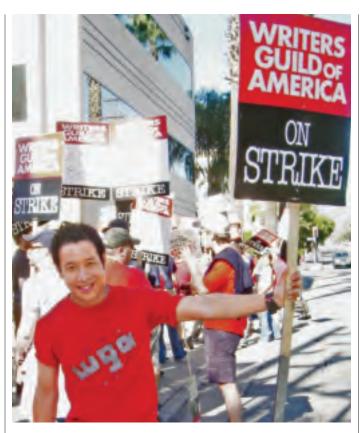
Ellis challenged students in the audience to change the way they think about their own career plans. "Where do you want to go? What do you want to accomplish? What's in your future? I think those are all legitimate and important questions," he said.

"But I would argue they are the wrong place to start. I think it's absolutely essential that you begin with a clear understanding of what your strengths are, what motivates you, what really ignites your passion as individuals."

Mexico's Fox Argues for Immigrants

Mexico is seldom cited in discussions of the world's rising economic powers, but according to a recent forecast by Goldman Sachs it is expected to be the world's fifth-largest economy by the year 2040.

Former Mexican President Vicente Fox, who delivered the Robert G. Wesson Lecture in International Relations Theory and Practice in March, used that forecast to frame a far-reaching



Strike That MBA for a WGA

Henry Huang, MBA '91, went to Hollywood as a "creative suit," an entrylevel development executive for a major studio. "I didn't know it, but I guess I was more creative than suit," he says, and a few years later he started writing scripts for television and film. "This was never a career I had considered or something I thought I was remotely qualified for," he says. When the Writers Guild struck last November, Huang went on the picket line for two months. Now, contract in hand, Huang is back at work. Latest project: a high-school cheerleading movie. "I know nothing about cheerleading," he insists cheerfully.

discussion on Mexico's challenges-from fostering democracy and tapping individuals' entrepreneurial instincts to broadening NAFTA and adopting a more sensible immigration policy with the United States.

Fox, who once headed Coca Cola's Mexican operations, has ancestors who moved from Ireland to France and then to Cincinnati, Ohio, before his grandfather immigrated to Mexico. People all over the world immigrate, Fox said. It is "just human nature to be aggressive and trust yourself and go out looking for a better life."

He condemned what he

described as aggressively antiimmigration attitudes in the United States as well as the construction of a wall between the two nations. While not endorsing a completely open border, he proposed a more business-based approach to immigration in which Mexicans could be allowed into the United States when their services were in demand.

"Immigrants are not terrorists," he said.

And the answer is: 84%

(87% of before-1990 grads; 79% of after-1990 grads.)

New Ventures

Alums Build Academy for African Leadership

Four years in the making, the African Leadership Academy welcomes its first class of promising young students next month. The nonprofit boarding school, cofounded by Fred Swaniker, MBA '04, and Chris Bradford, MBA '05, is located outside Johannesburg, South Africa. The Academy recruited students ages 15 to 19 from across the continent and selected them on the basis of merit alone; about 80 percent of this year's students will receive financial aid. Building a curriculum, an international faculty, and a \$5 million campus was only step one in the academy's mission "to transform Africa into a peaceful and prosperous continent by developing and supporting its future leaders.'

Online Microfinance

A few months working at Grameen Bank in Bangladesh was enough to convince **Tracey** Pettengill Turner, MBA '98, that microfinance is an effective aid in the battle against poverty. In 2007, Turner launched MicroPlace, which, like Grameen, combines capitalism with charity. At microplace.com lenders invest in microfinance organizations that fund entrepreneurs in developing countries. Loans return up to 3 percent interest per year. MicroPlace is a subsidiary of eBay; Turner is its CEO.

Turning Trash to Gas

Two-year-old alternative-fuel startup Coskata came out of stealth mode in January when it announced a partnership with General Motors. At the cost of about \$1 a gallon, Coskata converts carbon-rich materialsanything from old rubber tires to agricultural waste—into ethanol. The agreement with GM was initiated and developed by Coskata CMO and VP of Business Development Wes Bolsen, MBA '04, one of the company's first hires. Coskata expects its fuel to generate 7.7 times the energy it takes to produce it and greatly reduce CO₂ emissions, as compared to traditional fuels.

Search and Destroy

Fans of the TV series The X-Files know "The Truth Is Out There." But those who've been burned on the internet know there's a lot more than truth floating around the web. Enter Reputation Defender, cofounded by **Owen** Tripp, MBA '08. For a small

monthly fee, the company searches the web for information about you or your child. If you don't like what you see, Reputation Defender will do its darndest to persuade the website owner to destroy the offending items.

Trunkful of Trousers

Bonobos, the company founded by Brian Spaly and Andy Dunn, both MBA '07, offers pants to the young at heart and "athletic" of build. As student housemates, the two sold Spaly-designed trousers out of Dunn's trunk in the parking lot behind Littlefield. Now the company, with Dunn as CEO and Spaly as designer, makes its sales online at bonobos.com. "It was an idea that had some legs," Spaly told Vanity Fair Online. The company's namesake is a primate known for its promiscuity.

Cardinal Rule:

A flat world requires a dimensional education.















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Witness to a Legacy of Purpose

I TOOK A RISK COMING TO STANFORD. It seems like an easy enough decision-beautiful sunny days; tall, winding mountains; lush palm trees. This is heaven on earth and who could ask for more? But for me, I just wasn't sold. I like the cold, I love flat land, and I am allergic to most trees. Coming here wasn't always at the top of my list. In fact, my other top choice-Harvard Business School-was closer to my family, and many alumni at my former company told me that HBS was right for me. In fact, I was all set to go when I received a phone call from a GSB alum named Bob Lumpkins, MBA '68.

Mr. Lumpkins was the vice chair of Cargill, a Minnesota company located not too far from where I grew up. He and I had a nice enough conversation, and I remember thinking that he was a good man and a good ambassador of the School. Near the end of our call, Mr. Lumpkins decided that he had one last question for me: Did I happen to know Rayfield Russ? Well, to his surprise, Rayfield Russ was my father. I say "was" because he passed away in 1988 and had been gone for almost 19 years by the time Bob and I were speaking. When I told Bob about this he immediately chimed in and said, "I am so sorry to hear about your father's passing. I knew him well. I was your father's first boss and I recruited him to come to Cargill. How is your mom, Flossie?"

I literally had to sit down. All these years, I had wondered what my father was like as an

adult to another adult—the one relationship that we never got to share, and here was a man who had some of that information! Bob began to tell me the story of how he had encouraged Cargill, at a time when minorities were not as welcome in the corporate mainstream, to go recruit at schools that participated in the Consortium for Graduate Student Management (an organization that funds fellowships for highachieving minorities to receive MBAs at member schools). He had done this because he thought that getting the best talent, regardless of race, was the right thing to do. If it wasn't for his action, my life and the

opportunities my family has benefited from would have been totally different.

This struck me in a powerful way, but Bob said that he was just doing what he believed in, simply living out a sense of purpose through business that he had learned at Stanford. What he had walked away from Stanford with was a sense that business is not just about business. It is about impact and people and the strength of organizations to affect change. I realized then, as I do even more clearly now, that



By reaching out to a prospective student alumnus, Bob Lumpkins changed the author's life.

what makes Stanford special is that my classmates believe in a sense of purpose. Anyone can have a name, and anyone can have a message, but not everyone can provide a place where people can believe in principles and still learn in ways that allow them to grow and change as a person, where people can explore what it really means to be a leader.

Because of this place, I will graduate with a changed mind, a changed perspective, and a changed heart. I will take that into my workplace, into my relationships, and into my community. Because of my fellow classmates and those who came to Stanford before us, I can change the world around me. I used to think the GSB motto, "Change lives. Change organizations. Change the world," was lofty at best and unattainable at worst. I was wrong. Bob changed my world before I was born, and I am forever grateful that he came at the right time to change it again. It was Stanford that changed his world, and I am now part of a proud legacy that will truly continue to change the world in ways that will help countless others—even for those who may not ever know we've done so. This is what it means to attend Stanford, and this is why Stanford means so much to me. •



Bob Lumpkins, MBA '68

John Russ, MBA '08, delivered this speech at Stanford's Founders' Day celebration on April 7.

Obama's Amazing Penny Machine



Penny Pritzker, left, national finance chair for Sen. Barack Obama's presidential campaign, holds a meeting at campaign headquarters in Chicago. Next to her is Heather Falen, Pritzker's assistant; Ami Copeland, deputy finance director; and Julianna Smoot, finance director.

LAST OCTOBER, SOME OF THE WEALTHIEST SUPPORTERS of presidential candidate Barack Obama started losing faith. He was slipping in the national polls, and Hillary Clinton was winning the money race. Gathered in a meeting hall in Iowa, the big backers questioned the campaign's strategy, its funding, its very viability.

Sen. Obama delivered a rousing speech. But the person who succeeded in lifting the mood and reviving the fundraising machine was a petite billionaire from Chicago, Penny Pritzker, MBA '84/JD '85.

"She got up and said 'Relax," recalls Kirk Dornbush, a top Obama contributor and president of an Atlanta biotech firm. "She told us, 'Ignore the national polls. All campaigns and all businesses have ups and downs,' and that we needed to refocus on our job." The job of raising money.

As the national finance chairman for Obama's campaign, Pritzker has become a powerful force in the primaries. She is believed to be the first woman ever to serve such a role for a presidential candidate. By last March she and her team had raised more than \$188 million—the largest sum ever amassed for a primary race. That haul included \$54 million in the first two months of this year alone. Pritzker, a leading member of the Chicago dynasty that owns the Hyatt hotel chain, has raised the money largely by focusing on the little guy. The campaign has tapped more than one million donors.

Pritzker, who is 48, is an unlikely agent of political change. As one of a trio of Pritzker cousins that runs the sprawling family empire, she is worth more than \$2 billion. Yet she has perfected the art of reaching middle-class donors. Even though her roots are Old Money, more than 90 percent of the campaign's cash has come through donations of \$100 or less, much of it through the internet. She also is using unusual tactics, such as "Obama University," a training course for first-time fundraisers.

The epitome of understated money, she wears her brown hair cropped short, favors plain suits with little or no jewelry, and speaks with a Midwestern twang. She rarely gives interviews. "I come from the perspective of a businessperson," she said in an interview. "And I bring the same mindset to this process."

Pritzker met Obama in the late 1990s. Her son and daughter played in a summer basketball league at a Chicago YMCA. Their coach was Craig Robinson, the brother of Obama's wife, Michelle. The Pritzkers and Obamas became friends and started taking vacations together at the Pritzkers' summer home in Michigan.

When Obama ran for the Senate in 2004, Pritzker and her husband, Bryan Traubert, an ophthalmologist, helped raise tens of thousands of dollars. In 2006, when Sen. Obama was considering a run for the presidency, he frequently visited Pritzker in her office to chat about fundraising, foreign policy, and running a campaign.

The Pritzker family has long been active in Democratic politics. Growing up in Northern California where her father, Donald, ran the family's Hyatt hotel chain, Pritzker watched her mother stuff fundraising envelopes for Nancy Pelosi, now speaker of the House. Penny Pritzker donated money to Bill Clinton's first presidential campaign, she says, and helped raise money for John Kerry in Illinois during his 2004 bid.

In early 2007, she says, she had a hunch that Obama was about to ask her to become chair of his finance operation. She was running four companies, serving on numerous charities, and helping to raise her teenage son and daughter. She didn't think she had the time for a presidential campaign. She called her husband and told him that if she were offered the job, she planned to turn it down.

"He said, 'Come home. We need to talk about this before you decide," she recalls. In the kitchen of their Lincoln Park home, Traubert started banging on a wooden door. "This is the country knocking," he told her. "You have to figure out a way to do this. I will support you in whatever way you need."

Soon after, Obama asked and she accepted. Her first financecommittee meeting didn't go smoothly. With about 40 wealthy Obama contributors, she laid out the basics and set a fundraising target of \$12 million for the first quarter. The group barraged her with questions and advice, but she failed to offer clear responses, according to several people who attended. "There didn't seem to be a clear agenda," says

David Friedman, an Obama fundraiser in Colorado. "We all came away with more questions than answers."

Pritzker says that as a newcomer, she wanted to get input from others at the meeting rather than make hasty decisions. After a few weeks, she drew an important conclusion: Obama shouldn't run a conventional fundraising campaign. Clinton, she figured, was better known and better funded, and had locked up many of the wealthiest Democratic "bundlers" who collect donations from others.

Pritzker, who works for the campaign as a volunteer, and Julianna Smoot, Obama's in-house finance director, laid plans to reach out to wealthy donors, a target of most campaigns. David Geffen and Oprah Winfrey, for example, held lucrative fundraising dinners. But Pritzker and the team decided to focus mainly on an often-ignored corner of the fundraising world: first-time donors and small donations. She divided the country into 13 regions and gave the regional chiefs freedom to make decisions without having to get everything approved by headquarters. The policy made it easier for the regions to build relationships with smaller donors.

She also did away with a common campaign practice—establishing tiers of givers and awarding special titles to the largest donors. Instead, she created just one group, the national finance committee, for all bundlers who raised \$250,000 or more. "Other campaigns will give out three gold stars to the highest donors, or they announce the top givers and everyone stands up and cheers," says Friedman, the Colorado donor. "With Penny, it's not about internal hierarchies."

In February 2007, Matthew Barzun, a media entrepreneur in Louisville, Ky., asked Pritzker if he could host an Obama rally with a \$25 ticket price. She hesitated, since most fundraisers are built around expensive dinners, but eventually agreed, and the event drew 3,200 attendees, many of whom had never given to a campaign. The event led to a succession of low-priced events that yielded thousands of new donors. The campaign gathers emails and contact information from

Pritzker's conclusion: Obama shouldn't run a conventional fundraising campaign.

donors and rally attendees, then uses them for more fundraising. Under its "recurring gift" program, it offers to withdraw \$25 a month from donors' accounts until they reach the legal limit of \$2,300 for a primary.

Friedman and Alan Solomont, a Boston-based donor, brought Pritzker the idea to train first-time fundraisers. She set up weekend boot camps for bundlers, dubbed Obama University. Students are told how to ask for money from their relatives without starting a family fight, and how to solicit from business colleagues without running afoul of campaign-finance laws.

The campaign also has worked hard on its internet strategy. It spent millions to create a website that combines social networking with fundraising. In addition to donating money, users can link to other donors, create their own web pages on MyBarackObama.com and invite their friends to join.

Pritzker has proven adept at handling wealthy donors as well. Jonathan Perdue, a former packaging-goods executive in Mill Valley, Calif., and first-time political fundraiser, attended a session of Obama University. When he arrived, he couldn't find his name tag. Pritzker took care of it. "Here's this billionaire taking time to look for my name tag," says Perdue. "She's good at making everyone feel very important."

FRIENDS AND FAMILY MEMBERS SAY her attentive manner stems from a difficult past. When she was 13, her father died suddenly of a heart attack while playing tennis in Hawaii. Her mother, an alcoholic, became incapacitated within a year of her husband's death and died a decade later, family members say. People close to the family say Penny became a surrogate parent to her younger brothers, Anthony

In a 2001 interview, Pritzker said her interest in going into the family business was sparked as a young child when she accompanied her father to the Hyatt offices on Saturday mornings. "I saw Dad having a great time," she said. "Even as a kid, I had the impression 'This is fun."

She had to battle to be taken seriously within the family as a potential senior executive. She recalls her grandfather, A.N. Pritzker, tutoring the boys in the family about business, but not her. At age 16, she wrote her grandfather a letter on green stationery just before his 80th birthday party. "Why do you only talk to the boys about business, but not me?" she asked him. He relented and tutored her in the basics of debits and credits, she recalls.

After attending college at Harvard, she earned both law and business degrees from Stanford, competing in triathlons on the side. Her first job was as an analyst at Hyatt. She eventually became one of three family members in charge of the Pritzker holdings. She oversaw the family's nonhotel real estate, including large development projects in Maryland and Florida. She also helped found Classic Residence by Hyatt, a chain of upscale senior-living centers. In 2005, she became chair of TransUnion LLC, a Pritzker-owned consumer-credit tracking firm. She also serves on the board of Global Hyatt Corp., the hotel chain, and is chairman of Parking Spot, an airport-parking firm she helped start.

Her business career hit a bump in 2001, with the costly failure of Superior Bank FSB, a Chicago-area thrift that was seized by federal regulators after it ran into problems with subprime lending. The Pritzker family held a 50 percent stake, and she had been on the board of the bank's holding company. Anxious to avoid further embarrassment and liability, the Pritzkers and their co-owner settled with federal officials by agreeing to pay \$460 million over 15 years. Nearly all of the funds came from the Pritzkers. She says she regrets what happened. Some critics of Obama have cited her role in the bank failure, arguing that it undermines the candidate's criticisms of subprime lenders who target low-income borrowers.

Penny Pritzker was also a central figure in the family's feud over assets. In 2000, several family members began to demand more control. They complained of self-dealing by her and the two other family members who were largely running the show. The three cousins denied the allegations. In 2001, the family agreed to split the assets among 11 adult cousins, with the final apportionment due by 2011. The family has already sold more than \$10 billion in assets, including 60 percent of an industrial conglomerate, Marmon Holdings Inc., to financier Warren Buffett, for \$4.5 billion. The rest of the empire is likely worth more than \$10 billion. A majority stake in Global Hyatt accounts for much of that value. Penny Pritzker's share of the family businesses is slightly less than 10 percent.

With the core Pritzker empire now shrinking, some Obama donors wonder whether she will move even deeper into politics, perhaps by following Obama to Washington if he wins. She responds: "I'm not thinking that far ahead." •

This article is reprinted from the March 27, 2008, issue of the Wall Street Journal with permission of Dow Jones & Co.

Inspiring Creative Thinking: The Center for Entrepreneurial Studies

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A multidisciplinary student team challenging a joint project include (from left) Dave Hashemi, MBA '08, Simon Bababeygy, MD '09, Ashley Homer, MBA '08, Rose Roll, MBA '08, and Leslie Liang, JD '09.

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The Big Easy's Business Comeback

IT WAS THE WORST WEEK of our lives. Our 2-year-old turned blue, had a seizure, and was diagnosed with spinal meningitis. Instead of flying from New Orleans back home to New York City (three hours of no BlackBerry and unlimited DirecTV), we spent six days in solitary confinement. When we finally bid adieu to the Big Easy, the whole family felt beaten up. As it turned out, the seizure was nasty but not dangerous; the meningitis diagnosis was false (note to self: Don't go to ER on a Sunday); and, less than 48 hours after we finally took leave of New Orleans, Katrina hit. You know the rest. We were lucky.

Katrina and her stepsister Rita destroyed or seriously impacted over 100,000 small businesses in Louisiana. Some shops were annihilated by 30-foot-high walls of seawater. Others sat in stinking mud for weeks. The lucky ones were merely looted. When I agreed to return to Louisiana in late 2006 to become the statewide director of Business Recovery Services, the prognosis for businesses was grim: revenues way down, costs soaring, and balance sheets bloated with storm-related debt. Now, prospects for the businesses that managed to hold on look fairly good. By forcing people to care, the destruction of Katrina has catalyzed an unprecedented revitalization within the City That Care Forgot.

Consider, for example, reported gains in school test scores. Long considered some of the worst in the nation, New Orleans public schools are now attracting millions in investment and some of the country's best pedagogues. Better schools mean a better workforce and allow companies to consider locating in New Orleans.

Ninety percent of the population is back but resides in different areas as the New Orleans region rebuilds from Katrina.

Corruption is being tackled too. New Orleans finally has an inspector general, Robert Cerasoli, to foster transparency, efficiency, and reliability in government, the three pillars of business development that have been missing and undermining New Orleans for decades. The business community also has high hopes for the new governor, Bobby Jindal, who not only has made addressing corruption and ethics a central part of his platform, but is also an ex-McKinsey consultant who has brought a team that includes young, high-energy MBAs to help him overhaul the state's business climate.

Business groups, grassroots nonprofits, and private citizens are discussing economic development like never before. We have seen initiatives like actor Brad Pitt's "Make It Right" campaign in the lower



Alumnus Michael Hecht drives a New Orleans surrey belonging to Royal Carriages, one of the small businesses he helped recover from Hurricane Katrina by providing government assistance through Louisiana's Economic Development department.

Ninth Ward, which promotes green, innovative building technologies. The project builds not only houses but new local industry.

People are back, both tourists and also residents. According to GCR & Associates, by the end of 2007 the population of New Orleans was only about 65 percent of its pre-Katrina level, but the immediate metropolitan region was back to close to 90 percent: People have just moved to different areas. So, while some businesses will have to relocate and/or change their business models, the market is still there.

Record numbers of tourists have come back to the Big Easy, where Mardi Gras, the Essence Music Festival, Sugar Bowl, BCS Championship, NBA All-Star Game, Jazz Fest, and innumerable other events continue to broaden smiles for local businesses. Consumer spending in the New Orleans region in 2008 is expected to surpass 2005 levels. In part this is being fueled by the federally funded Road Home housing program, which will pump over \$10 billion into the local economy now that it has been fully funded by Washington.

Besides the billions in housing funding, New Orleans also will benefit from close to \$600 million of federal Community Development Block Grant funding for infrastructure improvements, and better infrastructure means better business. Thanks to aggressive government incentives, private investment is flowing into Louisiana. For example, an entertainment incentive program has quickly made Louisiana the third most popular filming destination in the country.

The New Orleans region also benefits from commodity prices at Continued on page 23





Preventing Corruption

»An alumnus describes his experience cleaning up a state agency after a few bad apples spoiled the barrel. Business school faculty who teach ethics and study how people get corrupted offer tips to managers on preventing such drains on an organization's reputation and efficiency. They warn against the all-too-common approach of hear, speak, and see no evil.

Lessons from the Scandal Front

-By Douglas Minge Brown, MBA '61

HAD JUST LAUNCHED Independent 529 Plan, a prepaid tuition program for 275 independent colleges and universities, and was ready to retire in October 2005. Sarah had sold her business, and we were planning an eight-month sabbatical in Manhattan, when an aide to New Mexico Gov. Bill Richardson called requesting I meet with the governor. The State Treasurer's Office had just erupted in scandal. Four people would eventually be indicted for various crimes ranging from extortion to counterfeiting. The two previous state treasurers were both destined to spend time in a gated community run by the Feds. Would I please be willing to fix it? Partly out of a sense of duty, and partly for the intrigue of the challenge, I agreed. I'd done several corporate turnarounds, but nothing prepared me for this experience.

An investigation by Deloitte & Touche begun weeks before had determined that the state's checkbook was out of balance by \$160 million, and unreconciled items stretched back over five years. The officer in charge of this department had no banking experience. His previous job was as a baggage handler for America West. Only one of my staff of 42 had any previous investment experience, and we were running a \$5 billion portfolio. There were few controls, little disclosure, and no effective oversight. Investment guidelines, purchasing policies, and personnel policies were routinely ignored. All efforts had been directed to overpaying on commissions and purchases to generate the wherewithal for "campaign contributions." The agency's outside auditor was a small firm from downstate that had for years given the Treasurer's Office clean opinions with no material weaknesses. That relationship was so cozy that other CPA firms had stopped bothering to bid. I came to appreciate Warren Buffet's observation that there is seldom just one cockroach in the kitchen.

Now for the scary part. Document shredders had been working over-

"I CAME TO APPRECIATE WARREN BUFFET'S **OBSERVATION THAT THERE IS SELDOM** JUST ONE COCKROACH IN THE KITCHEN."

time. The alarm contacts on doors and windows had been super-glued together to enable after-hours entry. Video cameras had been redirected and videotapes erased. Staff members who were reluctant to go along with these schemes had their personnel evaluations downgraded retroactively. One had her car vandalized. Alerted to this pattern of criminality, I had a detective agency check the premises for telephone bugs. They found five, including one on my phone.

The most chilling moment came after I immediately had the alarm system repaired. The very next morning, an early-arriving employee went to her desk and realized she had forgotten to turn off the alarm. Her panic turned to puzzlement when there was no police response. The alarm was not working. Later that day, the alarm company revisited and informed us that someone had tampered with the system the night before by inserting a sophisticated lens to divert the electric beam.

From the Deloitte findings and my extensive interviews with staff, it became clear that all roads led to a cohort of nine staff members. Several of them were related to the former state treasurer. Fortunately, all but two were patronage appointments who could be summarily replaced.

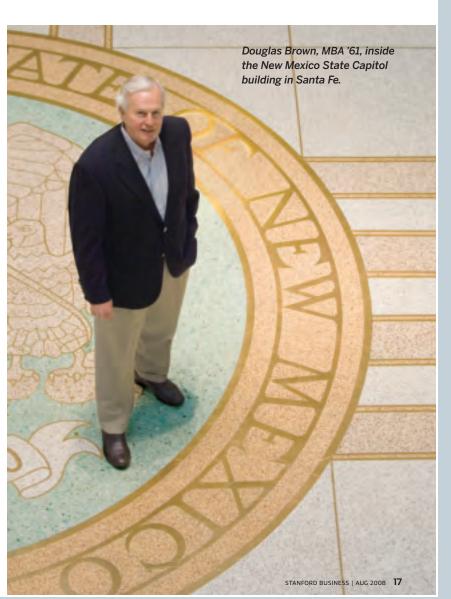
At the staff meeting I assembled to announce the departures, I had expected some regrets—after all, there are always lunch groups, carpools, friendships. Instead, the news was greeted with a standing ovation. Clearly, I had gotten it right, and clearly the remaining staff was with the new program. There were two other surprises. An agency veteran said that this was the first staff meeting that the agency had held during her 10-year career there. The other surprise was that there was no extra burden of work despite a layoff of more than 20 percent of the workforce. That group had been doing nothing but making mischief.

Progress came swiftly, in large measure due to several key executives from other state agencies who were willing to join the team and in no small part due to a dedicated existing staff. I will forever be especially grateful for the contributions and leadership provided by Scott Stovall, Mark Valdes, Joelle Mevi, Mark Canavan, Janie Tabor, Jodi Porter, Laura Montoya, and Judy Espinosa. Help from other government agencies was indispensable, notably from David Abbey, Amy Chavez, Olivia Padilla-Jackson, Roy Soto, Stephanie Schardin, and Hilary Tompkins. Accounts were balanced; all transactions were posted on the website; oversight was created; electronic trading platforms eliminated commissions; four investment specialists were hired; 300 revisions were made to the investment policy; personnel, purchasing, and security policies were created. The payoff was earning an AAA rating from Standard & Poor's for our principal fund, a first for the State of New Mexico. The fund's yield climbed from 46th among the states to 7th. We got a clean audit that meant something. I am pleased that my elected successor, James Lewis, is committed to integrity and to building on the foundation that our team built.

As I exited in December 2006 in favor of my elected successor, I did so with several regrets:

- Try as we did with counseling resources and morale-boosting events, there remained some residual trauma from the abuses of the previous administration.
- Several of the employees I fired were quickly rehired by other state agencies. One had been fired by two state agencies before landing at mine, and another had been abruptly let go from two finance positions in a city. After I let this person go, she was rehired by the very city council that had previously fired her!
- To date there has been little appetite for ethics reform at the New Mexico State Legislature. Proposals by Gov. Richardson's Ethics Reform Task Force were largely ignored. Campaign contribution laws are weak and loosely enforced. There remain no limits on the size of contributions for state office, even on cash contributions. New Mexico is not the only state with these problems. During my short-lived tenure as treasurer, there were at least three other states under investigation for various scandals.

A few observations about corruption: I have come to regard it as a fairly natural state of affairs. While some people have a moral com-



pass that will keep them doing the right things when no one is looking, many don't. If there is a group of people in positions of power long enough to set up mechanisms to exercise that power, and if there is inadequate oversight and a lack of checks and balances, stir well and you

"IN MY EXPERIENCE, A TRULY CORRUPT OUTFIT **DIVERTS, DISTRACTS, AND DEMORALIZES."**

will have corruption. This behavior transcends race, ethnicity, or nationality, and the vulnerability to it can be anticipated in corporations and nonprofits, as well as government.

Then there's what I call the "Myth of the Lovable Rogue," the public official who may be on the take, but the city or whatever runs like a top anyway. Don't believe it. In my experience, a truly corrupt outfit diverts, distracts, and demoralizes. When the wrong things are being done, the right things don't get done.

You now know more about the turnaround at New Mexico's Department of Treasury than most New Mexicans. The local papers and other media that had for months reported daily on the scandal showed no interest in carrying the story of our turnaround. We thought it would be in the public interest, but apparently they were stuck on "if it bleeds, it leads."

The press is addicted to alarmist stories. The flames of alarm are further fanned by parties who stand to gain from the issue of concernbusinesses trying to profit, universities seeking research dollars, and politicians seeking problems to address.

Y2K was a classic nonevent. So much time and capital resources were siphoned off to deal with this largely phantom problem that capital spending on productive projects sagged nationally for a year or two. This folly came home to me when all the employees in our building were required to replace their garage access cards with ones that were "Y2K compliant." And all these cards did was to make the gate go up

There is one area of media coverage that I believe should be reformed: weblogs sponsored by newspapers. If someone wants to spew trash by posting anonymous inflammatory or false entries on a self-sponsored blog, I support their right to do so. But if a newspaper will not publish an editorial letter or op-ed piece without attribution, why should it be able to sponsor a blog that does so? All during my time as treasurer, a blog sponsored by the Santa Fe New Mexican published untrue, vile, and salacious items about our staff membersentries most likely posted under pseudonyms or by friends of people from the group fired for misconduct. •

Douglas Brown, MBA '61, is a director of several corporations and nonprofits and lives in Albuquerque, N.M. He is a former Stanford trustee and recipient of the University's Gold Spike Award.

Prescriptions for Preventing Cheating

—By Margaret Steen

HEN A CORPORATE SCANDAL throws a company into crisis or even destroys it, many onlookers' reaction is that the people involved must have been immoral. Certainly they, the onlookers, would never become involved in cooking the company books, approving mortgages without proper documentation, or lying to customers about a product's capabilities.

Yet it's easier than most people realize for ordinary, well-meaning people to get caught up in activities they should have known were wrong. These activities do "real harm to real people," says GSB accounting Professor Maureen McNichols, who teaches an elective course called Understanding Cheating. Among other things, the course helps students see how good leadership and the right organizational structure can cut down on the opportunities for corruption.

Creating a structure that reduces the chances of cheating requires a balancing act: between too few controls and too many, and between understanding why people cheat and intolerance for such behavior.

Many people, including students at business schools, resist discussing how the influence of a group or a situation can lead good people to do bad things. It seems to excuse the behavior, and they want individuals to be held accountable for their actions. But research indicates that leaders who don't acknowledge that group pressure exists-so they can use that understanding to promote an ethical organizational culture and appropriate controls—may be setting their organizations up for corruption.

"I would say that there are some people who are just flat-out corrupt: They would steal the offering from the church plate," says Douglas Brown, MBA'61, who was named treasurer of the state of New Mexico in 2005 after a corruption scandal led to the indictment of the two previous treasurers. (See Brown's account, page 16.) But there's a much larger group who are deeply conflicted about what to do and finally "just kind of tunnel under and put up with it."

Brown didn't fire everyone who had had a hand in his department's corrupt practices. For example, an employee who was asked by her boss to send out invitations to a golf tournament "which was basically lining the pockets of the state treasurer" was kept on.

"I felt she was simply doing her job," Brown says. "She suspected





that something wrong was going on, but she didn't have specific knowledge of it. She was asked to type a bunch of invitations, and she did."

Just as posting speed limit signs and exhortations that "Speed Kills!" will do little to reduce speeding if the police aren't issuing tickets, so businesses need controls and independent auditors to rein in potential cheating. But "too many controls can breed enormous inefficiencies," Brown says, causing business to grind to a halt. "This is a common

"YOU HAVE TO TRUST YOUR PEOPLE AND EMPOWER THEM."

managerial problem: You have to trust your people and empower them" while still monitoring what they're doing.

The idea that ordinary, good people can end up involved in corruption is counterintuitive to some. "We underestimate the power of a situation to control people's actions," says GSB organizational behavior Professor Deborah Gruenfeld. "Most of us believe we're much more autonomous than we are."

Social science research suggests leaders need to take into account group power, organizational structure, rationalization, and fear and confusion.

■ **GROUP POWER.** If the supervisor of the storeroom notices supplies are disappearing fast, he or she is likely to remind coworkers that too many people are stealing. That's exactly the wrong approach to take, psychologist Robert Cialdini of Arizona State University told researchers at a recent Business School conference. In an experiment in Petrified Forest National Park in Arizona, Cialdini placed signs at entrances asking people not to take home petrified wood. The sign at one entrance showed three thieves with an X over them, while at another entrance, the sign depicted just one thief. The latter was far more effective at reducing theft.

"You want to alert people to the extent of a problem as a way of mobilizing them against it," Cialdini says. But when you emphasize how common cheating is, "there's a subtext message, which is that all of your neighbors and coworkers are doing this. And if there's

WHEN YOU EMPHASIZE HOW COMMON CHEATING IS. "THERE'S A SUBTEXT MESSAGE. WHICH IS THAT ALL OF YOUR NEIGHBORS AND COWORKERS ARE DOING THIS."

a single, most primitive lever for behavior in our species, it's the power of the crowd."

■ **ORGANIZATIONAL STRUCTURE.** "My lifetime's work in business ethics suggests that business corruption has everything to do with culture and with incentives," says Kirk Hanson, MBA '71, executive director of the Markkula Center for Applied Ethics at Santa Clara University and an emeritus GSB faculty member.

For example, Don Moore, associate professor of organizational behavior and theory at the Tepper School of Business at Carnegie Mellon University, has written about how the relationship between accounting firms and their clients "makes it impossible for auditors to be objective, given what we know about human psychology." Auditors want smooth working relationships with their clients, and they don't want to be fired, so they have an incentive not to ask awkward questions.

Executives may also "look the other way when a salesperson overpromises," Cialdini says. They may ignore exaggeration in the company's marketing materials or use proprietary information gained from one vendor in negotiation with another.

Actions speak louder than words. "You can't dupe people by saying, 'This is what we stand for,' when promotions are based on something else," Gruenfeld says.

RATIONALIZATION. Because people generally want to view themselves as ethical, they will reframe a situation to justify their actions, says Elizabeth Mullen, assistant professor of organizational behavior at the GSB, whose courses on negotiation and organizational behavior include ethics topics. "The division of labor required for much corporate work, with many people contributing a small amount to a project, makes this easier. For example, an employee can tell himself, 'I'm not the person who falsified the safety data for the product; I just reported the data that I had," Mullen says.

People also accept uncritically information that confirms what they want to believe, Moore said, while poking holes in statements they wish weren't true.

■ FEAR AND CONFUSION. GSB political economy Professor Jonathan Bendor, who teaches a course on negotiation that includes discussions of cheating, thinks for most people fear is a more common cause of corrupt behavior than greed. People want to avoid conflict, and being a whistleblower can ruin a person's career, even if the person is vindicated. So many people keep quiet.

"It takes a huge amount of courage to say 'stop.' Some of this stuff is a judgment call, and you may be wrong, and then you really look $\,$ stupid. But you have to take the risk," says Bowen "Buzz" McCoy, a former member of the Business School's Advisory Council who spent 30 years at Morgan Stanley. He has written and consulted on business ethics and, with his wife, endowed a GSB chair in leadership values and helped fund the Stanford Program in Ethics in Society.

Although many cases of corruption involve behavior that anyone should know is wrong, it's not always so clear cut. For example, says Professor Blake Ashforth of Arizona State's W.P. Carey School of Business, "Small gifts are ways of cementing friendships. Big gifts are bribes. How big is big?"

McCoy points out that a good salesperson may use hyperbole but doesn't lie, and that in some cases the sophistication of the customer

plays a role in how far a salesperson should go in making claims. Adds Gruenfeld: "When people say someone is entrepreneurial or resourceful, part of what they mean is that person knows how to work around constraints in the system."

GSB Professor Emeritus James March adds that "without a certain amount of cheating-violating rules-and corruption—inducing others to violate rules—no organi-

"WHEN PEOPLE SAY SOMEONE IS **ENTREPRENEURIAL OR RESOURCEFUL,** PART OF WHAT THEY MEAN IS THAT PERSON KNOWS HOW TO WORK AROUND **CONSTRAINTS IN THE SYSTEM."**

zation can survive. It is often called 'taking initiative' or 'using your head.' That is not a justification of egregious behavior, but a reminder that the boundary between art and obscenity is often hazy."

Tepper's Moore describes "an endless process of coevolution" in which businesses explore new models. Some are deemed by society to be unethical or undesirable and eventually outlawed. Others become the norm.

Moore explains how auditors can go from behavior that is technically correct but ethically borderline to outright corrupt in just a few years. First, the auditor sees the client doing something that's just on the edge of permissibility and doesn't say anything. The next year, the client pushes just a bit further, this time over the line. Now the auditor doesn't confront the client about it, since the practice is so similar to the one that went unremarked the previous year. By the third year, the client's practice is clearly wrong, but the auditor realizes that to challenge it would be to admit mistakes in previous audits. And by the fourth year, the auditor is actively

engaged in a coverup with the client to prevent the corrupt practice from being discovered.

"Not everyone who starts down the slope winds up slipping all the way to the bottom," Moore says. "But people do become comfortable with actions when they occur in small steps that they would never allow if they happened all at once."

Once these actions take hold, they are harmful to the organization and to the individuals involved. It's difficult to lie to the outside world and tell the truth internally, McNichols says, so people wind up distorting their own company's decisions with lies as well.

Other costs of dishonesty include turnover of more honest employees, pilfering by dishonest employees who stay, and the monetary and psychological costs of increased monitoring of employees' behavior.

With all these forces conspiring against honesty, is it possible for individuals to be held responsible?

ROM A LEGAL PERSPECTIVE, psychological research may sometimes provide a defense. For example, the legal definition of fraud in the United States requires that the person who makes a fraudulent statement knows it is false when he or she says it. "The psychology shows quite clearly that people are capable of persuading themselves of all kinds of crazy things. If you've persuaded yourself that this falsehood is true, it's not fraud when you say it," Moore says, adding that he would advocate changing the legal definition of fraud to make this defense more difficult.

However, Ashforth notes that even though people can be easily corrupted by the situation or culture, they still know right from wrong. Often people who are engaged in wrongdoing don't talk much to their friends about it, a sign that they know it isn't right. "People are still responsible for their choices."

"It has to be very clear to the employee that the culture doesn't allow cheating. There should be close monitoring," says Maurice Schweitzer, associate professor of operations and information management at the Wharton School, University of Pennsylvania.

Some experts stress the importance of government action. "It's just

MBA Classes Address Ethics, Cheating

IRST-YEAR MBA STUDENTS at the GSB take a required course on ethical analysis called Ethics and Management, but the discussion of ethics does not end there. Faculty incorporate case studies and discussions of ethical issues into a variety of classes, some of which are specifically about ethics, such as Corporate Fraud and Ethical Issues in the Biotech Industry taught by Margaret Eaton. Understanding Cheating, a course taught by Maureen McNichols, looks at the psychological, economic, and organizational factors that motivate cheating in business, academia, and sports, and the implications for managers.

Deborah Gruenfeld delves into the issue of cheating as part of her organizational behavior courses. She begins one class with an example of a manufacturing firm whose employees knew they were making an unsafe product. "The point is to drive home the observation that situations are very powerful," she says, but most students' initial reaction is that the people involved were morally flawed and did things that they themselves or most other people would not do.

Then Gruenfeld presents a different situation with incomplete information and asks students to state publicly what they would do. As she gives them more information, it becomes clear that one decision based on incomplete data is now difficult to justify. Despite the new information, the "vast majority" of students who had publically committed to the wrong decision stick with it. "They fight tooth and nail not to change their minds," she says.

The exercise shows "the students that they need to understand how situations affect their behavior," Gruenfeld says, so they can see the pitfalls when they are leading organizations themselves. "If there was an easy answer to this, we wouldn't have to talk about it for five weeks." •



silly to pretend that we can solve problems like fraudulent reporting of financial results with voluntary measures," Moore says. Like pollution, fraudulent reporting is a "public good problem," where each company would like "to get away with a little more than everyone else does," so the government needs to establish a level playing field.

Santa Clara's Hanson says the government also plays a role by putting executives in egregious cases behind bars. Without this, "executives believe that it's all a cash game, that I can make substantial amounts of money with a low probability of having to pay a fine. However, if there is even

WITHOUT JAIL TERMS, "EXECUTIVES BELIEVE THAT IT'S ALL A CASH GAME, THAT I CAN MAKE SUBSTANTIAL AMOUNTS OF MONEY WITH A LOW PROBABILITY OF HAVING TO PAY A FINE."

the remotest chance that I may go to jail, the incentives are changed dramatically."

But there are also steps business leaders can take to encourage honest, ethical behavior.

■ HIRE AND PROMOTE FOR AN ETHICAL CULTURE. People tend to be most comfortable in organizations where ethical standards are similar to theirs. Those who are opposed to the behavior they see "will migrate out, either by choice or they'll be asked to leave," Cialdini says. Many employees may not know whether the CFO is cooking the books, but they do see and hear about others' behavior.

The problem is magnified when the unethical players are in management. "It becomes very reinforcing as managers select and promote people who are like themselves," Ashforth says. That will leave more people in the organization who think cutting ethical corners is OK.

Adds Wharton's Schweitzer: "If a senior manager has employees pick up his dry cleaning or wash his car or use company money to fund a birthday party, you're setting a tone that's really corrosive throughout the organization."

"There are cultures where you're perceived as dumb

Corruption Costs Businesses Competitive Advantage

ORRUPTION SWELLS the number of employees needed, driving up costs and sidetracking workers from jobs that could help grow a country's economy, say researchers who studied the issue in Latin America's electricity distribution industry.

It has long been known that corruption is associated with lower GNP per capita, and lower investments and growth rates, but the study by Ernesto Dal Bó, associate professor of political economy at the Business School, and Martin Rossi of the Universidád de San Andrés in Argentina, is the first to show that corruption damages nations by

WHERE GOVERNMENT CORRUPTION WAS HIGHER-FIRMS USED SIGNIFICANTLY MORE EMPLOYEES TO GET THE SAME JOB DONE.

making firms inefficient. They postulate that corruption—the misuse of an office for private gain—leads to the needless inflation of employee ranks, which, in turn, creates a less favorable business climate and ultimately serves as a serious drag on a nation's wealth.

The researchers studied data from 80 electricity distribution firms in Latin America between 1994 and 2001. Using a theoretical model combined with data, they found that in countries where government corruption was higher-as measured by the International Country Risk Guide and Transparency International-firms used significantly

more employees to get the same job done. They found that if a country in their sample of Latin American nations with a median corruption level, namely Brazil, were to lower its corruption level to that of the least corrupt country-Costa Rica-its utilities firms would use 7 percent fewer workers. The effect is independent of a country's general economic or political stability.





Ernesto Dal Bó

Why would corruption inflate employee ranks? Managers might hire extra people to make their own jobs easier and then influence regulatory officials to raise prices to cover the costs. Or regulators might harass firms with costly "official" requests. In exchange for being relieved of these requests, firms might spend resources, both human and monetary, courting officials—outlays that inflate labor and operational costs.

Yet a third possibility is that in a country where corruption is the order of the day, a firm may be hiring more employees to manage its own internal corruption. "It's likely that your purchasing officer may be getting kickbacks or may be stealing, for example," Dal Bó says. "Then you have to hire someone to monitor him. Again, this is wasteful."

The research, published in the June 2007 issue of the Journal of Public Economics, doesn't say exactly what drives the added cost but it provides empirical evidence that, when seen at the microeconomic firm level, corruption destroys a country's wealth. "Problems like corruption may ultimately determine the viability and health of business in any given country," Dal Bó concludes. •

-By MARGUERITE RIGOGLIOSO

Grim Fairy Tales from Alumni Managers



YOU'VE HEARD IT ALL BEFORE. "The dog ate my homework." "The cleaning lady threw it out." "My dog ate rocks."

Your dog ate what? OK, maybe you haven't heard every excuse in the book, but most managers have come across a fair number. We asked Stanford Business School alumni to share some of the most memorable they've encountered over the years. The excuses they sent us came in all shapes and sizes, but most, like the ones above, blame someone else or cite circumstances beyond the employee's control.

Kim Firestone, MBA '62, recalls one employee with an airtight excuse for absence. He called the office, saying simply, "I'm in jail." Betsy Cotton, MBA '86, received a more complicated version of the same story. When one of her employees didn't show up for work because he was behind bars, "We reminded him that the last time he was in jail he had his wife call in on his behalf," Cotton wrote. "We asked why he hadn't made the same arrangement again. 'Because she's the one who put me there!' he said."

Speaking of running afoul of the law, one must admit admiration for the excuse Tom Fitzsimmonds, SEP '75, received from an employee who missed work and also tested positive for marijuana: "I was stuck in an elevator with a rock band," said the silver-tongued devil.

Sometimes an excuse tells the boss more than anyone would want to know about an employee's life. Did Collin Hathaway, MBA '07, really need to hear that his employee missed two days of work because of "a bad eyebrow waxing." Yeeew! Or did Luis Barallat-Lopez, MBA'78, care to get a blow-by-blow description of his employee's home life? "Sorry to be late, but I was in a fight between my ex-wife and my new mother-in-law." Sounds rough, but this is an excuse?

And then there was the guy at Dave Hedge's company who told the boss he couldn't come to work because he had met someone at a bar who invited him home for a party. "Upon arriving at the party, he found that everyone was nude, drinking, doing drugs, and having sex. He said that he was drugged and woke the next day to find all of the people asleep. He then went home to sleep it off for the rest of the day. This was only one of his tall tales," said Hedge, MBA'61, who "finally had to let him go."

Bummer. But however much of the party guy's story was true and how much was a product of wishful thinking, he should have known it helps if the tall tale can survive a fact-check. Sam Cataldo, Sloan '75, recalls one hapless teller of tales who forgot to read the weather report. "They were on their boat, stuck in fog and unable to get to work to finish an assignment. Strangely, no one else in this area experienced any fog," Cataldo noted.

On the other hand, some people simply cannot tell a lie. John Beeman, MBA '65, had an employee who might have been better off with a little white one. Instead, he told Beeman he was absent because he was interviewing for a position at another company. Oh, no problem. And Morgan Dudley, MBA '89, had an assis-

tant who made up an excuse and then apparently thought better of it. "The next day he came into my office, sat down, and told me he had actually just wanted to go to the movies," Dudley said.

When all else fails, some employees figure a good offense is the best defense. Consider Frances Dias, SEP'73, who was told in no uncertain terms by an employee that she "was hardly in a position to judge his deadline or work-he was the public information officer." Dias chalked

Whether it's naked Swedish soccer players or a bad eyebrow day, seasoned managers have heard their share of creative excuses.

up the situation to male chauvinism. "His obvious thinking was that I was a woman, hence no abilities," Dias wrote.

Deirdre Black, MBA '88, recalls two staff members assigned to research an online auction site and report back. "At the next meeting they said they had nothing to report because they had determined it was a phantom website that didn't really exist," Black wrote.

And then there was the fellow who was late for work because he was having his hair cut. Rather than apologize, he blamed it on the company. Since his hair grew on company time, he explained to Mark Babidge, SEP'83, he figured the company owed him the time to get it trimmed. "Not only that," Babidge wrote, "he borrowed my vehicle with the excuse that if he didn't use my car he would waste too much time

Recovery

walking to the barber."

Some quasi-excuses attempt to divert the listener from the matter at hand, like this classic, courtesy of Jack Grocki, MBA '65. Grocki was one of some 150 people who became increasingly annoyed as they waited for an employee who was scheduled to give an early morning presentation. When the speaker finally took the stage, he excused himself by saving, "Sorry, but I would have been even later if I hadn't been awakened by seven naked Swedes cavorting in my neighbor's hot tub." Grocki and his colleagues' attention instantly turned from the employee to the seven suburban skinny-dippers, who, if you must know, were part of a hockey team touring the United States and staying with the speaker's next-door neighbor. "They apparently thought it was perfectly normal to carry on naked in a hot tub at 7 a.m.," Grocki wrote.

If lies get found out and diversions don't do the trick, humor—if used judiciously—can be effective. Rick Abell, Sloan '78, told this tale on himself: "In the U.S. Air Force, each officer must receive an annual evaluation, and one of my staff was late in providing the report. This caused us both to report to the commanding general. After a thorough verbal lashing, the general asked what did we have to say. Immediately Skip replied, 'The dog ate my homework.' We were dismissed amid much laughter."

Finally comes the trickiest of all: the no-excuse. Executed by the right person, it works. We owe this example to Rick Derrington, MBA '76, who wrote, "I went to Acapulco for a meeting with the president of Mexico. He never showed up! I waited five days" All we can say is, don't try this one at home, kids-unless you're a head of state. •

Continued from page 15

historic highs. As I write this, oil is at \$110 per barrel. While this is bad news for most of the country, it means substantial tax revenues for counter-cyclical Louisiana. In fact, there is now a \$2 billion state surplus in Baton Rouge.

Life is good here. Camellia Grill has reopened, the parks are back in bloom, and a college grad can live well on \$50,000 per year. This is good news for companies looking to recruit young talent. As restaurant guide publisher Tim Zagat puts it, "All the things people come to enjoy about New Orleans are back in place."

This is not to say that New Orleans doesn't have great challenges: It is still the best place in the United States to catch a stray bullet (world-famous chef Paul Prudhomme was grazed in the arm recently while cooking jambalaya at a fair; he continued stirring with his good arm), vital wetlands are eroding at an alarming rate, and local government is distressingly absent. For too many individuals, practical and emotional challenges persist.

But, on balance, what we are witnessing is a redemption story. Out of the destruction of Katrina, a new New Orleans is rising, and the prospects of the business community are rising with it.

Laissez le commerce rouler!

Michael Hecht, MBA '98, was director of Business Recovery Services for the state of Louisiana's Economic Development department until this summer when he was named president and CEO of Greater New Orleans Inc., a public-private regional economic alliance.

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He Wields Statistics to Solve Problems

WHAT DIFFERENCE DOES IT MAKE how data packets are routed through the internet? What techniques should be used to figure out staffing levels for telephone call centers? Can transactional data be used to guide booking decisions for hotels and airlines?

Welcome to the world of J. Michael Harrison, an operations researcher and the latest member of the Business School faculty to be elected to the prestigious National Academy of Engineering.

Harrison was cited for his contributions to knowledge about stochastic networks, a term used by scholars to describe complex systems in which statistical variation affects performance. In recent work, the Adams Distinguished Professor of Management focuses on applications to such varied problems as call center management, dynamic pricing, and revenue management.

Seated in his well-organized office and surrounded by books with titles such as The Elements of Statistical Learning and Monte Carlo Methods in Financial Engineering, Harrison observes that, like others in his field, "I live in a pretty abstract world. Most days I walk into this office thinking about things that are hard to see, hear, smell, or touchlike stockout penalties, demand distributions, and predictive relationships among business variables."

Harrison called mathematical models, which provide frameworks within which to organize computations and data, his "stock in trade."

"I specialize particularly in statistical models, where computations based on probability theory are used to account for uncertainty," Harrison explained, adding that such models help corporate leaders decide "how many agents to employ in a call center, how big a plant to build, how much of each product to produce this month, whether and what kinds of insurance to buy." Harrison said such decisions must be made "so that uncertainties are accounted for or hedged against in an economically reasonable way."

While many theories developed by university researchers remain obscure, Harrison says that some have markedly altered the way people think about everyday issues. Many good examples can be found in the world of finance, where today's language on Wall Street is vastly different from what it was three decades ago.

"Words like 'hedge' and 'option' are much more commonly used than they were when I started on the GSB faculty, as are abstract phrases like 'derivative asset' and 'correlation structure," said Harrison. "A good theory changes the words people use to describe what they are doing, and often their whole view of the world."

Harrison's theories are broadly framed, enabling them potentially to apply to business situations ranging from how to reduce long lines at McDonald's to how to streamline production. "I'm usually trying not to make it specific—that's my whole goal," he said. "It's like the parodic sales pitch that Dan Ackroyd did on Saturday Night Live long ago—'It's a floor wax, it's a dessert topping, it's all kinds of stuff.' A theorist tries to address all possible cases in one fell swoop, to kill many birds with one stone."

Despite his emphasis on the general, much of Harrison's research over the past five years has been devoted to specific issues in call center management, collaborating with Stanford grads Assaf Zeevi, PHD '01 in electrical engineering, and Achal Bassamboo, PHD '05, who are now on the business school faculties at Columbia University and Northwestern University, respectively. "Call centers are an irresistible focus of study for people like us," Harrison said, "with their echelons of dif-

"Most days I walk into this office thinking about things that are hard to see, hear, smell, or touch."

ferently trained agents, ubiquitous information technology, and highly structured operating procedures to handle contingencies. Still the biggest single focus in my work over the past 25 years has been development of general tools—tools that apply regardless of industry context—to support decision making about business systems."

In addition to his work in operations management, Harrison is the coauthor of two influential papers in mathematical finance that developed the mathematical foundations of option theory. With colleague David Kreps, the Business School's Theodore J. Kreps Professor of Economics, Harrison introduced the notion of equivalent martingale measures, which have since become a standard tool in theoretical analysis.

Harrison's newest initiatives are in the area of dynamic pricing and revenue management, also known as yield management. He introduced an MBA elective on that subject in 2003 and has launched a research project focused on design and pricing of subscription-based services like web hosting and outsourced logistics.

Membership in the National Academy of Engineering honors those who have made outstanding contributions to engineering research, practice, or education, including "significant contributions to the engineering literature and to the pioneering of new and developing fields of technology, making major advancements in traditional fields of engineering.

As he has done in alternate summers over the past 20 years, Harrison attended the weeklong Stochastic Networks Conference, in Paris in June. Scholars from various disciplines gathered to discuss problems in fields that range from biology to electronic commerce to wireless communications. Harrison was the principal organizer of a similar conference held at Stanford in 2002.

Other members of the Academy on the Business School faculty are Andy Grove, lecturer in business and cofounder of chipmaker Intel Corp, and William Miller, Herbert Hoover Professor of Public and Private Management, Emeritus.

Many American Symphonies Spend More Than They Raise

MOST MAJOR SYMPHONY ORCHESTRAS in the United States regularly spend more money than they take in, and some dip so far into endowments that they risk their long-term survival, according to a new report authored by Robert J. Flanagan, the Konosuke Matsushita Professor of International Labor Economics and Policy Analysis, Emeritus.

"The industry should realize that there is an inherent long-term economic challenge," Flanagan says, "Nowadays, even if symphonies filled their halls for every concert, the vast majority would still not be able to cover their performance expenses."

Although recessions exacerbate their woes, Flanagan said many symphonies have financial troubles even in good times. Attendance has been declining for most types of concerts, and orchestras may not be adequately scrutinizing the returns to their expenditures on marketing and fundraising. Larger symphonies, for example, appear to spend nearly twice as much on fundraising as they realize through donations, he said.



Robert Flanagan

Some orchestra managers told Flanagan they disagreed with that conclusion, but other symphony officials he interviewed were hardly shocked.

"Some of them say it doesn't surprise them because many symphonies have a bias toward revenue growth strategies and a bias against cost-cutting strategies," Flanagan said, adding that nonprofit board members often shy away from conflict. "It's not clear that they're willing to be as tough minded about costs as directors in the private sector."

Flanagan's study, "The Economic Environment of American Symphony Orchestras," was commissioned by the Andrew W. Mellon Foundation and published by the foundation in March. It includes data from every orchestra that ranked among the 50 largest U.S. symphonies for at least two years during the 1987-88 through 2003-04 concert seasons, a total of 63 orchestras. During that time 46 orchestras ran deficits on average-excluding their money from endowments-versus only 17 with surpluses.

Although Flanagan believes a best-practices effort would help many symphonies improve their financial status, the financial circumstances vary greatly from city to city and orchestra to orchestra.

"You can't go through this analysis and conclude that there's a single solution—a single smoking gun," he said. "I think the report documents the futility of single solutions."

Cool with Wrong Crowd Can Send Sales Crashing

WHY DO SOME PRODUCTS go from cool to out of favor in a blink? Professor Chip Heath and Jonah Berger, PHD '07, say this happens to products that consumers associate with their own identities. If consumers believe a product has become popular with groups they don't want to associate with, they will turn their back on a former favorite. In one study, for example, undergraduates rated a new digital music

player more negatively when they learned business executives liked the product.

But such identity connections do not apply to all products. In another study consumers were asked for their favorite cars, clothing brands, music, dish soap, and bicycle lights. A couple of weeks later, they heard that the items they had preferred were now also getting a strong nod from a high percentage of other students. When retested for their preferences, they changed their choices, but only in product categories that were relevant to their own identities—cars, clothing, and music-not in categories that weren't-dish soap and bicycle lights. Cool had suddenly become uncool, and when too many others liked an item it was no longer a good marker of identity.

The research, published in Journal of Consumer Research, suggests that companies dealing in identity-relevant goods must constantly stay ahead of the cool-passé pendulum swing. "If you want your brand to retain cachet, you might want to think about protecting or segmenting meaning," said Berger, now assistant professor of marketing at Wharton.

Consumers Spend Dividends But Save Capital Gains

IMAGINE THIS SCENARIO: Two households with stock portfolios of identical worth each see their investments appreciate by 10 percent one year. The only difference is that one household's wealth grows entirely through capital gains; the other receives its additional wealth in the form of dividends. Which household is likely to spend more, and which one accumulates more wealth?

According to new research, the household receiving the dividends is likely to run out and spend the cash. The one with the capital gains is more likely to reinvest or save them. Besides adding to our understanding of consumer behavior, the information could even be used to draft economic policy, said the researchers, Stefan Nagel, assistant professor of finance, and colleagues Malcolm Baker of Harvard University, and Jeffrey Wurgler of New York University.

A 1980 paper by Richard Thaler posited that people instinctively group their assets into different categories that they then spend in certain prescribed ways. They do not see capital gains and dividends as interchangeable, but rather as two different kinds of funds earmarked for two different purposes.

"Over the years, companies have learned—sometimes painfully—that investors often prefer dividends," Nagel says. "It's not particularly rational. When companies decide to do stock repurchases rather than dividends, they are still returning money to investors, but investors don't like that very much." Consumer behavior is consistent with a widely held perception that dividends, unlike capital gains, represent a "permanent kind of income," he says. "They don't necessarily expect capital gains every year, but they do come to expect dividends."

The study, "The Effect of Dividends on Consumption," published in Brookings Papers on Economic Activity, has implications for the economy as well as for consumers and businesses. For consumers, a rule of thumb to spend dividends and not touch capital appreciation "might even be suboptimal for their overall wealth." On the other hand, life is complicated enough. "There's only so much time you can spend thinking about these things," Nagel says. "Economic rules of thumb can work very well for that reason."

At the corporate level, companies are well advised to understand investors' attitudes or risk drawing the wrath of shareholders. And for the overall economy, although the study didn't specifically investigate that angle, Nagel says: "There is the possibility that understanding this consumer behavior could be used to stimulate the economy." After all, if taxes on dividends are cut and companies respond by paying out more dividends on which investors pay fewer taxes, there could be a significant increase in consumption. "If you're looking to stimulate the economy, there's the possibility that this could have that effect."

On the other hand, because consumption is the flip side of saving, this means that in years when dividends are high, consumers save less. "If an investor's portfolio increases through capital gains, the money tends to stay in the brokerage account; if dividends are paid, it tends to be withdrawn, and not put back," he says. "Thus if the government were trying to promote savings, it could arguably encourage corporations not to give out dividends."

Teamwork Gives Edge in Complex Manufacturing

THOSE WHO WORK in the most complex manufacturing environments have the most to gain from the use of problem-solving teams, according to a study recently published in the Journal of Labor Economics. As the United States concentrates its manufacturing base, workers are more likely to be working on very high-quality products that require complex manufacturing steps.

Using data from steel minimills, the study shows that teams had the greatest impact if they tackled complex tasks in these environments, enjoyed meaningful incentives, and knew that management listened

Steel mills traditionally have focused on the quality and quantity of goods produced rather than how workers interact, and managers often resist the idea of taking rank-and-file workers off the factory floor or paying them overtime for meetings so they can become col-



Kathryn Shaw

laborators. Yet during the five-year study, the number of mills using problem-solving teams more than tripled—and the practice became virtually universal on lines executing the most complex tasks.

"It's not teams, per se," said Kathryn Shaw, the Ernest C. Arbuckle Professor of Economics, one of the authors. "It's having an environment that supports teamwork. You need a group of experts coming together to solve a complex problem. You're bringing people together because no one person can solve the problem

as well as the group."

Although this study focuses on a narrow aspect of one industry-"rolling mills" that reheat, roll, and cut steel to produce bar products such as rebar or I-bar—Shaw said strategic teams with appropriate incentives can have a widespread impact.

"I've visited so many companies in so many industries, and this really is the answer."

There is one caveat: The teams' gains are significant only when they are addressing complex processes such as improving product quality or solving assembly line problems, not relatively simple tasks such as organizing shifts, Shaw said.

Companies rarely make capital investments without having detailed expectations about the potential return, she said, but most haven't developed the same expertise about human resources policies. "That's much harder to do with HR. But the returns to HR can be just as big." •

Want More?

More research details available online at GSBresearch.stanford.edu

Netflix Erases the Deadline Rule

IT ISN'T OFTEN that a business model becomes the subject of a patent violation suit. But that's exactly what happened in 2006 when Netflix, the pioneer in online video rental, sued Blockbuster, the giant of the brick-and-mortar video rental companies.

In 2003, Netflix patented a 31-page business model that allows customers to pay a fixed monthly fee, create an online wish list for future rentals, and order them over the internet for postal delivery. There are no late fees, as customers can keep as many as four DVDs at a time but cannot rent new movies until the previous ones are returned.

The novelty of the model and the possibility that it might be applicable to other businesses intrigued Sunil Kumar, the Fred H. Merrill Professor of Operations, Information, and Technology, whose research focuses on analyzing mathematical models of operations, particularly congestion phenomena. Along with colleagues Achal Bassamboo, PHD '05, of Northwestern University and Ramandeep Singh Randhawa of the University of Texas, Austin, he studied the Netflix model with the goal of determining what effect the lack of deadlines has on customers and identifying the smallest amount of inventory Netflix could carry while still having enough movies on hand to satisfy customers.

The answers were straightforward: "Netflix got it right by not imposing deadlines," Kumar said. The company needs to stock only a small fraction of the total demand

for any one video to still provide good service. The Netflix business model contains an interesting set of trade-offs. When a customer keeps a movie for an extended period of time, Netflix is deprived of its use, which is a negative. Deadlines help ensure prompt return and thus reduce the number of copies that Netflix needs to stock. But because the customer can't rent another movie until one is returned (this is known as "max out" and is included in the patent), deadlines speed up demand for other movies and trigger costs of fulfillment, such as postage, which Netflix pays. Kumar and his coauthors show that there is no trade-off here at all—not having deadlines is a win-win.

Netflix isn't flying blind because customer wish lists give insight into what movies customers want. So the question remains: How many copies of a given movie should the company stock, and is it really better to eschew return deadlines? Customer behavior is pretty random, with some holding movies for a week, others three. The timing of new movie releases is also random. It turns out that those two facts are key to resolving the questions, according to the GSB research paper "Dynamics of New Product Introduction in Closed Rental Systems."

To demonstrate why, Kumar uses an analogy familiar to many business students—"the inspection paradox." Here's how it works:

Suppose we note that taxi cabs pass a given corner on the average



The video rental service broke new ground with a consumer model that had no deadlines or penalties.

of one every ten minutes. Then assume I show up at a random time, and I'm told that a taxi left the corner eight minutes ago. At first glance, one would assume the next taxi will arrive in two minutes on average. But that's incorrect; the real answer is much longer, and depends on the degree of randomness.

The release of a new movie is like the arrival of the taxi, and the customer's readiness to rent another DVD is analogous to showing up at the corner. Imposing deadlines would remove some of the randomness from the equation and push customers to rent faster, resulting in higher costs. Removing deadlines creates a better balance of supply and demand, the researchers conclude.

If the no-deadline model works for Netflix, would it work for another type of business? The answer is maybe, Kumar said. It would not work for a car rental business, since people tend to rent a car and return it without renting another. But consider the customers of an equipment rental business. One might rent, say, an air compressor at the beginning of a job and then return it and rent a backhoe, which could mean that a no-deadline policy would work. "It's worth examining," Kumar says.

And the suit? It was settled out of court in 2007, with the terms kept under wraps.

The 75-Year Evolution of Jackson Library



at desk in foreground, was the School's second female graduate and first librarian. This photo was taken circa 1938 in what would later become Jackson Library, which can be seen below in its current incarnation.

Elizabeth Breid McFarland, MBA '31,

WHEN THE BUSINESS SCHOOL admitted its first students in the fall of 1925, there was no library. It took eight years before the first GSB library opened, tightly wedged into a portion of Jordan Hall that doubled as a classroom.

Today, as plans proceed for the Knight Management Center, the five-story information center building that will include the library is being envisioned as a focal point for the School's new campus. Once a place where patrons went to pull books off the shelves, the Business School's new library will devote less space to physical collections of books and documents but significantly increase the amount of information available electronically.

"When you say 'library,' people still tend to think of this storehouse that has a lot of physical books and journals in it, but that is not true any longer and is not going to be true in the future," said Kathy Long, director of the J. Hugh Jackson Library. "We will clearly still have a space for publications, but libraries are more than that now. Our goal is to make sure we can deliver as much as we can to where our customers want it. This may be to their desktop, to their BlackBerry, or to their telephone. The role of the library is changing and shifting, but not diminishing."

How the inside of the Business School's new library will look is still under development, but here's what you might eventually see:

- NO ENTRY GATE to make the library appear more inviting and encourage walk-in visitors from Stanford and beyond.
- **SELF-CHECKOUT.** Already common in several Bay Area public library systems, it reduces demand on library staff.
- A SINGLE HELP DESK that combines the current separate reference and information desks.

The new informaton center will be a crowning touch on the kind of transformation the library has been undergoing. In April, Jackson Library-named in honor of the School's second dean, who reportedly donated parts of his own book collection to fill the first library's shelves-celebrated its first 75 years. In the digital age foot traffic has dropped an estimated 58 percent since 1968 (to 104,000 visits in the 2006-07 year), while digital use has tripled in three years, to 557,379 visits during the academic year.

To meet this electronic demand, a major part of Jackson Library's strategy includes having more interactive web 2.0 technologies online and offering web-based services to appeal to tech-savvy users. In 2006, Jackson librarians posted their first video to YouTube, featuring organizational behavior Professors

 $\textbf{Jeffrey Pfeffer} \ \text{and} \ \textbf{Robert Sutton} \ \text{discussing their book}, \textit{Hard Facts},$ Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management. The 2-year-old Jackson blog had 23,900 visits between January and March of 2008.

The first floor features the Traders' Pit, an area with computers offering information from financial data providers including Bloomberg, an electronic display of the NASDAQ and other market indices, and a widescreen monitor carrying financial news from CNBC.

A wing of seminar rooms opened last year in space once occupied by books and other materials that have been moved 50 miles to a storage warehouse in Livermore. Most of the 100,000 volumes moved out of the library were published before 1995 and had not circulated for five years. They can be retrieved on a day's notice.

While adapting to change, Jackson remains one of the top academic libraries in the country. In 2006, it received a Center of Excellence for Service award from the Special Libraries Association's Business and Finance Division.



>Faculty News

Three Faculty Get Endowed Chairs

AS A PROFESSOR of organizational behavior, Chip Heath asks questions like: What makes ideas succeed in the social marketplace, and how can people design messages to make them stick? Or: How do individuals, groups, and organizations make important decisions, and what mistakes do they make?

In April, Heath became the first faculty member named the Business School's Thrive Foundation for Youth Professor of Organizational Behavior. Endowed by Robert Eliot King, MBA '60, and his wife, Dorothy King, the chair is named for a foundation created by the couple to strengthen opportunities for youth. Heath, who joined the Business School faculty in 2000, is coauthor of the book Made to Stick, which explores why stories such as urban legends or conspiracy theories may stick in people's minds while more important ideas go unnoticed.

In addition to the newly created chair, Dean Robert L. Joss announced at the spring faculty celebration dinner that two other faculty members had been named for their first time to existing endowed chairs. Peter Henry was named the Konosuke Matsushita Professor of International Economics, and Larissa Tiedens was named the Jonathan B. Lovelace Professor of Organizational Behavior.

Henry is associate director of the Business School's Center for Global Business and the Economy, a senior fellow at the Freeman Spogli Institute for International Studies at Stanford, and a senior fellow at the Stanford Institute for Economic Policy Research. Tiedens' work explores the psychology of social hierarchies and the social context of emotion. She sits on the editorial boards of Journal of Personality and Social Psychology, Journal of Experimental Social Psychology, Organizational Behavior and Human Decision Processes, Organization Science, and Personality and Social Psychology Bulletin.

>Extra Credit

Marketing Cues Signal Two Directions

GIVING CONSUMERS VERBAL, visual, or cognitive cues can have opposite effects depending on the group these cues are aimed at, say researchers. For instance, tell men and women to shop for clothes. Men set out to get right to their goal of finding the needed item, while women see a "possibility-driven" experience with lots of room for browsing.

S. Christian Wheeler, associate professor of marketing, and Jonah Berger, PHD '07 and assistant professor of marketing at the Wharton School, used a study to verify their hunch about this. They asked one group of men and women to write about their thoughts and experiences when clothes shopping, and another to write about the geography of their state. Then each group was given a supposedly unrelated task-to describe how each would approach choices such as planning a trip in a new place.

Men who had been told to think about clothes shopping tended to make more purpose-driven choices on the trip question, while women were more possibility driven, Wheeler and Berger wrote in the Journal of Consumer Research. In sharp contrast, without the shopping prime women made more goal-oriented choices, such as sticking to the map, while men were more willing to be adventurous.

"This suggests that men and women behave in very different ways when they are stimulated to think about clothes shopping-and that such behavior is in contrast to how they ordinarily respond," Wheeler says. "It's a clear case of a single prime affecting two different groups in an opposite fashion."

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The Power of the Pen and **Executive Compensation** John Core, Wayne Guay, and David Larcker Journal of Financial Economics (Vol. 88, No. 1), APRIL 2008

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Özgecan Kocak and Glenn Carroll American Journal of Sociology (Vol. 113, No. 5), MARCH 2008

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Mie Augier and James March Journal of Economic Behavior & Organization (Vol. 66, No. 1), APRIL 2008

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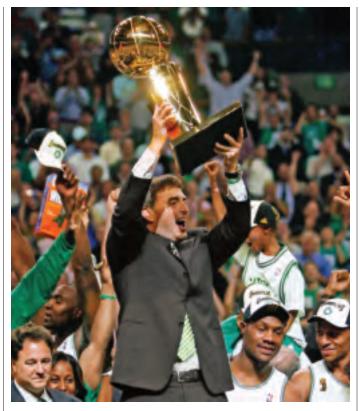
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PHOTO BY PHIL ROGASH/GETTY IMAGES SPORT/GETTY IMAGES.

Wsmakers

WHO'S IN THE NEWS: A ROUNDUP OF MEDIA MENTIONS



Boston Celtics managing director Wycliffe "Wyc" Grousbeck, MBA '92. hoists the NBA championship trophy following his team's victory.

GSB Team Celebrates Hoopsters' Glory

What's the greatest comeback by this year's Boston Celtics, who won their first championship in 22 years with a victory against the Los Angeles Lakers in game six of the National Basketball Association finals? According to CNN Money, it wasn't the play on the court as much as in the front office where a team of investors led by Wycliffe Grousbeck, MBA '92, and his father, H. Irving Grousbeck, a professor and director of the School's Center for Entrepeneurial Studies, kept fans in the seats through five losing seasons until they were able to bring about this year's return to glory. Celebrating with the Grousbecks were three other Celtics owners who are GSB

alumni: Joseph Lacob, MBA '83; Stephen Luczo, MBA '84; and Mark Wan, MBA '92.

Asked to explain the victory, Irv Grousbeck told the Associated Press, "I don't want to make it seem like this was our master plan, but our strategy was to build assets and remain opportunistic-be looking for what you can do and build, build, build. If you do nothing else over time, you'll build a good team."

Meanwhile, the Houston Rockets were helped to a 22-game winning streak, the secondlongest streak in NBA history by number cruncher Sam Hinkie, MBA '05. His data analysis and keen observation skills place him somewhere between

analyst and scout, according to The Oklahoman. At ease poring over a spreadsheet or examining a layup, he combines those findings to recommend team recruits. "What we try to do is draw a clearer picture," Hinkie said, likening his analyses to one piece of the puzzle in putting together a winning team.

Run from the Joneses

How does Jason Feinsmith, MBA '00, keep his monthly Silicon Valley mortgage and housing costs under \$1,000 a month? Twelve years ago he and his wife, Elana, watched friends struggling to get into million-dollar homes. This wasn't for them, so the couple decided to buy a manufactured house in a Sunnyvale mobile home park. They still call it home and have since paid off the mortgage, leaving them with a reasonable monthly space rental fee.

Because of his low, affordable housing costs. Feinsmith told Bankrate.com. his wife is able to stay at home with their two children, he can sock away more in his retirement account, and there is enough money to start his own software venture. They considered moving into a traditional house but the \$800,000 price tag for a fixer-upper meant Elana would have to return to work.

On the Road Again

You may remember a feature story in the November 2006 issue of Stanford Business on Bill Browder, MBA '89, the founder of the highly successful Russian investment firm Hermitage Capital. Declared by Russian officials to be a threat to national security and public order, many suspect because of his public criticism of Russian corporate governance and regulation, Browder was denied re-entry into Russia in

2005, which left him running the business from London. Now, according to the *New York Times*, he is setting his sights on an investment fund concentrating on the Middle East, including Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates.

Boring Brings Bucks

Being boring paid off for **Donald** Ellenberger, MBA '86, and his Federated U.S. Government Securities fund. While the credit crunch routed equities and nongovernment fixed-income securities last winter, his fund's conservative Treasury holdings weathered the storm, with a 1-year return of 11 percent, according to Barron's. The fund won the 2008 Lipper Fund Award for three-year adjusted risk, and Morningstar gives it five stars, its highest ranking.

Ellenberger started with the Pittsburgh-based company in 2005 and extends his cautious investment attitude to his personal life, preferring to spend time with family over mountainclimbing or sky-diving. "I'm a bond guy," he says. "We don't do risk."

Scalpel, Suture, Joystick

Steady-handed surgeons know a tiny slip of the knife could spell big trouble. Dr. Frederic Moll, Sloan '88, left his surgical residency in the mid-'80s to explore improving surgical tools. That search brought him to Silicon Valley, where he started several medical equipment businesses.

Moll's employer in 1994 thought surgical robots were too risky. So Moll started, and later sold the firm, Intuitive Surgical, whose da Vinci robot is able to handle surgical tools and sewing needles. His current company, Hansen Medical, developed a robot that can send a catheter



Dr. Frederic Moll, Sloan '88, founded two medical equipment businesses that developed surgical robots for safer surgery.

deep into the heart, which could become the go-to tool for treating a host of circulatory problems.

Surgical robots guarantee steady, controlled movements and can withstand radiation. "The public has no idea of the extent of difference between top surgeons and bad ones." Moll told the New York Times. He hopes his products will close that gap, making surgeries safer and more accurate.

Drug Studied for Alcohol Intolerance

An estimated 40 to 50 percent of East Asians have ethanol intolerance, an inherited metabolic disorder that gives them unpleasant symptoms—from facial flushing to nausea-when they drink alcohol. Regular drinkers can also face more serious long-term risks, including digestive tract cancers.

Now Raptor Pharmaceuticals has started clinical trials of a treatment for the disorder, overseen by **Ted Daley**, MBA '92. Daley studied food science before getting his MBA, and he founded a pharmaceutical company called Convivia to work on the treatment, which he sold to Raptor.

"I knew people who were affected by this disorder, who felt very sick if they would drink alcohol," Daley told the Marin Independent Journal. "It always struck me as odd that there wasn't a way to address it."

Jude Shao Released from Chinese Prison

Jude Shao, MBA '93, was paroled from a Chinese prison in early July after serving 10 years of a 16-year sentence for alleged tax evasion and fraud. A naturalized U.S. citizen, Shao will spend his probationary time in Shanghai.

Classmates who had been working to free Shao for the past seven years had used part of their 15th reunion just weeks before Shao's release once again to draw attention to his incarceration. A briefing for the class as well as the news media was organized by Cyn Dai, Chuck Hoover, Caroline Pappajohn, Lang Anh Pham,

Caroline Pappajohn, MBA '93, and classmates have been working to free Jude Shao for the past seven years.



and Mark Williams and drew attention of print and broadcast media, including the Asian Wall Street Journal, Los Angeles Times, San Francisco Chronicle, San Jose Mercury News, and UPI. The group maintains a website called freejudeshao.com.

"Under China's legal system, Shao had been eligible for parole since 2006. But [on July 2]—a day after U.S. Secretary of State Condoleezza Rice concluded a visit to Beijing during which human rights were discussed—Shao walked out of Qingpu Prison," reported the Los Angeles Times.

Mining for Green Tech

In an effort to speed clean-energy technology to the marketplace, the U.S. Department of Energy recently opened its research labs to venture capital firms. Each selected firm has an exclusive right for a year with a single D.O.E. lab to license the lab technology that interests them. Michael Bauer, MBA '98, is Foundation Capital's entrepreneur in residence for a year at the Oak Ridge National Laboratory.

Lab employees who invent these technologies may be more scientists than entrepreneurs, Bauer told GreenTech Media. "For those technologies where the inventor wants to stay in the lab and continue to be a scientist. we would find some other technologist to support the technology within the startup," he said.

Bawdy Shots Stimulate Investing

If you're trying to persuade a man to take a financial risk, showing him an erotic photograph might help. In a study using magnetic resonance imaging, researchers found that erotic pictures increase blood flow to the same area of the brain as financial risk-taking, and men who view those photos are more willing to bet high on a random chance game.

If you are pitching a woman, will the same strategy work? It's unclear, Camelia Kuhnen, PHD '06, told the Chicago Tribune. She and Stanford psychologist Brian Knutson used 15 young, heterosexual Stanford men in their study. They didn't test

the theory on women, she said, because it was too difficult to find an erotic image that appealed to many different heterosexual women.

Recruiter to Presidents

Being a headhunter for the country's top firms is old hat for executive recruiter Joie Gregor, Sloan '83. Things even got political when Afghanistan President Hamid Karzai sought her advice on activating private-sector growth in 2006, said the Pajhwok Afghan News.

Last September the U.S. commander in chief asked her to be his assistant for presidential personnel, a job that taps her extensive recruiting skills, this time for White House staff. Before starting at 1600 Pennsylvania Avenue, Gregor was vice chairman at Chicago-based executive search firm Heidrick and Struggles.

Raising the Ante

Dr Woody Myers, MBA '82, the first African American to hold the post of Indiana State Health Commissioner, triggered the federal "Millionaire's Amendment" by using personal funds to help finance his U.S. congressional campaign in the Hoosier state. This allowed his Democratic opponents to receive triple the usual donation limit, according to House Race Hotline. Although not victorious in May, the former New York City Health Commissioner and UCSF School of Medicine professor told the Associated Press, "I have really no regrets at all, other than the fact that we came in second instead of first."

Plan for Silver Linings

In turbulent economic times, many companies cut costs. These austerity measures "have been responsible for the relatively shallow recessions of the past few years," wrote Asaf Farashuddin, MBA '94, in Strategy+Business. "However, a mere recovery from crisis is not enough to deliver sustainable success," said the vice president of corporate strategy for Visteon Corp. Restructuring plans should consider the upturn as well as the current crisis.

Continued from Page 21

if you're not taking a little bit on the side," Hanson says. "There are cultures where you don't tell the customer anything more than what you have to, and there are cultures where you genuinely watch out for the customer's interests."

- **ENCOURAGE DISSENT.** Corruption is less likely if employees feel comfortable speaking up. "Managers need to convey that they want their subordinates to disagree with them, or to speak up when something doesn't feel right," Gruenfeld says.
- **APPOINT AN ETHICS OFFICER.** Have someone who knows both legal and ethical issues and can offer advice to employees when they don't know how to handle a situation. "You need to have people you can actively go to to get advice," Ashforth says.
- **RETHINK GOALS AND REWARDS.** A system that bases people's pay solely on how much they sell provides no incentive for behaving responsibly with respect to recruiting, training, and character. "If you tie compensation solely to production, you've lost control—you're no longer a manager," McCoy says.

Schweitzer has found that people with specific goals are more likely to cheat in order to reach them. This is true even when there is no extra compensation for meeting the goal—the psychological benefit is enough to make people stretch the truth. He suggests managers weigh the motivation that goals provide against the potential ethical cost, especially when those goals, such as billable hours, are difficult to monitor. "In some cases, the benefits of motivating with goals and incentives are really worth it," he says. "In other cases, the damage you do to your ethical climate could be far worse than the benefit you get in productivity."

MARGINALIZE MISCONDUCT. Instead of telling employees not to steal from the storeroom because too many pencils have disappeared, try this message, Cialdini says: "If even one of us does this, it undermines the integrity of the system and the fairness by which we all treat one another.' The key is to marginalize the undesirable conduct, rather than to normalize it."

An ethical culture—one in which honesty is normal and cheating is not-can go a long way toward minimizing corruption. But just as creating it requires balancing competing approaches, so does dealing with offenses when discovered.

"I do think people have to be held accountable for actions," Gruenfeld says, but she adds that punishing wrongdoers should be accompanied by an examination of the organizational structure that contributed to the problem. Simply replacing the people is not enough. •

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www.gsb.stanford.edu/exed/lff Stacey Gray, Program Director (+1) 650.725.2994

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