STANFORD BUSINESS

FEBRUARY 2009

Dean for a Decade: Robert L. Joss Announces Retirement

Preventing the Next Market Meltdown

Marketing God's Word

Greg Hawkins, MBA '88

STANFORD BUSINESS

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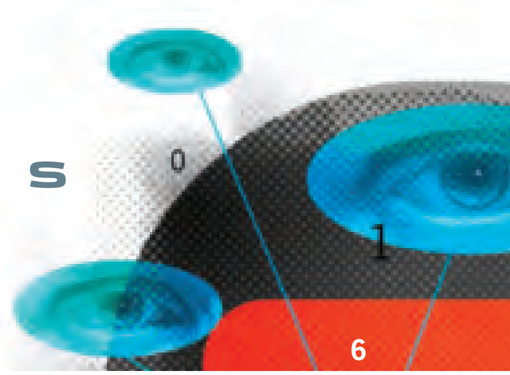


FEATURES

School Dean Robert L. Joss with Al Gore in 2004. The former U.S. vice president gave a speech to students.

ON THE COVER: *Photograph by Kendall Karmanian.*

MORE FEATURES

KNOWLEDGE NETWORK

COLUMNS

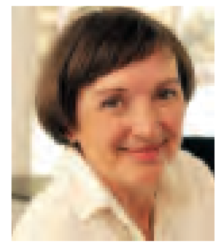
Professor Darrell Duffie speaks to students about the government bailout of banks in September 2008.

TOP PHOTO: STEVE CASTILLO. BOTTOM PHOTO: ANNE KNUDSEN.

Connect.the.Dots

MY PREDECESSOR in this job had one simple definition of it: "Put things together that go together."

That seems easy enough, but what happens when you have a story about a professor honored for service to alumni at the same ceremony as alumni/ae are honored for service to the School? Does the professor's honor get chronicled in the Faculty News section separately from the volunteers' honors noted in their individual Class Notes sections? Or is it important for readers to see that the Business School Alumni Association honors faculty and alums together for an array of services to the GSB community?



We don't all value information the same way, so there is no perfect formula for go-together editing. This year we kept the Alumni Association's awards together in one story in the Faculty News section on page 28. Perhaps next year we will parse it differently.

Digital technology promises to transfer much of the decision making about what goes together from me, an editor, to you, a consumer. Databases, search engines, and keywords are often better than the best paper indexes for helping people find information they seek. Using online tools, you might put together items from this magazine that would never occur to me. Perhaps you will find a new business partner or friend, or even an idea to apply to your dream project.

In the online version of this magazine (at *stanfordbusiness.stanford.edu*) there is a link to a search box. You could search for Professor **George Foster**'s name and find out that he just received the Alumni Association's Silver Apple award and also other information that we previously published about his work in accounting research and sports management. You could search for an alumnus' name, **Tom Friel**, and find out that he also received a service award this year, and that he helped organize a GSB event in 2002. This will not be everything we have published about Friel because, to see the Class Notes for his class, you will need to be an alum with a password and willing to search separately in Class Notes. But if you used Google to search the entire Stanford website by typing in *site:stanford.edu Tom Friel*, you would find many more items about Friel, including an interesting video presentation he gave on campus about "Replacing Yourself as CEO." It is posted as part of Stanford's "Entrepreneurship Corner," which, frankly, I did not know existed, until I searched for more information on Tom Friel.

Search engines—ours internally at the magazine and those the world uses—are very useful but, like editors, imperfect. They don't always put things together that go together, and sometimes they make big mistakes. On page 6, we take a look at some of the confusion, intentional and otherwise, that can develop around people's identities as the result of online social networks and other data aggregation technology.

I hope reading this magazine is more than the sum of its data to you. When **Barbara Buell** writes about the leadership style of School Dean **Bob Joss**, when Pat Olsen writes about **Alex Kummant** in railroading, and when William Symonds writes about **Greg Hawkins** in a religious institution, I think you will find the articles more interesting than reading these leaders' resumes. At least we strive for that. Don't put this magazine down now, but when you have a spare minute, try an online search for nuggets in the gold mine of the Stanford University website. You might be amazed at what you didn't know about the wonderful people associated with this institution.

Kathleen O'Toole

EDITOR

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STANFORD GRADUATE SCHOOL OF BUSINESS
WE PRINT GREEN • WE SAVE TREES

Spreadsheet

✱ **WHAT'S UP:** NEWS ABOUT THE GSB AND ITS GRADUATES

In Remembrance of Fledgling Leaders

A procession of MBA students makes its way to a memorial service honoring three GSB students killed in an Oct. 10 automobile crash. Chris Sahm, class of '09, and Viet Nguyen and Micah Springer, class of '10, were en route to a retreat near Big Sur when their car veered off Highway 1. Relatives, classmates, faculty, and staff shared memories and stories at the service the following week. A wellspring of support came from within the GSB as well as the Stanford community and other business schools around the nation.

PHOTO BY CHARI RATWATTE, CLASS OF '09.

Myanmar MBA Degree Started by Alumna

Half a century ago, a young woman in Burma—now known as Myanmar—received a scholarship from her country to attend a foreign MBA program. For reasons she ascribes to "good karma" as much as to advice from her professors, **Yi Yi Myint**, MBA '61, chose Stanford Business School. After two years in California, degree in hand, she returned home to serve for 40 years as a professor at the Institute of Economics, Yangon, where in 1995 she founded the first MBA program in Myanmar.

"I was there with my Stanford MBA experience at a time when the university authorities wanted to have a Myanmar MBA," she wrote in an email from Yangon. The university had hoped, but failed, to partner with an international business school, she said, and the idea of a two-year graduate program based on the Stanford model as she remembered it "let loose all the pent-up inspirations of years ago." Of 699 applicants, 45 were admitted the first year. Myint headed the program, and classes were taught by the institute's regular faculty and guest lecturers, who "provided international flavor, color, and perspectives."

In the 14 years since its founding, the Myanmar program has been quite successful, she wrote, and it has expanded to an executive session as well as an online MBA. "The first few batches of MBAs found employment with UN agencies, NGOs, branches of foreign companies, and even at embassies. Now more are with multinational corporations, Myanmar banks, and other businesses. We have no accreditation, but some MBAs who continued in other international programs did very well and returned with renewed confidence. Some are in overseas jobs as well."

Writing to her class secretary, **Fred Rehmus**, last fall, she said, "the imprint of Stanford, the spirit and culture of the MBA experience stayed with me." Retired from the Institute of Economics, Myint remains active in women's and business affairs. She is an advisor to the Myanmar Women's Entrepreneur Association, which she founded, and an executive committee member of the Myanmar National Academy of Arts and Science. Last June she led a delegation of Myanmar women to Hanoi to take part in the 18th Global Summit of Women. It was, she remarked pointedly, "perhaps my payback for being one of only four women MBA students at Stanford during my entire two years there!"

Bush Cites Alum for Post-Katrina Work

During his first year at the Business School, **Daryn Dodson**, MBA '07, made a solo trek to New Orleans to see for himself how the area had been upended by Hurricane Katrina. The following year he organized a group of his fellow students to visit the city as part of a service learning trip; they spent 10 days gutting flood-damaged homes.

Dodson remained struck by the immense challenges faced by small businesses in the area. After graduation he took a job with Idea Village, a nonprofit that works to stabilize local companies in New Orleans. There he is director of Village Ventures, assigned to recruit MBA students to come to the city and provide technical assistance and advice on business strategy to small business owners.

Last August, during a speech in New Orleans, former President Bush singled out Dodson's efforts to rebuild the city's business community. Rather than remain in the Bay Area and join the region's lucrative high-tech boom, Bush said, Dodson "felt the need to come back to New Orleans to help. This bright man decided, instead of trying to seek his own personal wealth, to come here and help people realize the blessings of entrepreneurship, all aiming to add value and to create jobs here in New Orleans."

Portable Incubator Hatched for India

Every year 20 million premature or low-birth-weight children are born, many of them in rural areas of developing countries where they have no hope of receiving the medical care they need to survive. Enter Stanford's *Entrepreneurial Design for Extreme Affordability*, a two-quarter course co-taught by the Business School's **Jim Patell** in which graduate students across the University look for practical solutions to the problems of the global poor. One of its promising products is the Embrace, an inexpensive ($25 estimated) portable incubator designed to resemble a sleeping bag and heated by a material that keeps bag and baby at a constant temperature of 98.6 degrees for four hours without electricity.

Jane Chen, MBA '08, was part of a student team that created a low-cost portable incubator.

The Embrace organization is itself in the incubation stage. The four-student team came up with the idea and developed it in class in 2007. Last June, two of the original team members, **Jane Chen**, MBA '08, and **Rahul Panicker**, PHD '08, Engineering, won an Echoing Green Fellowship, which provides seed funding for the project of up to $90,000 over two years. The organization has since received nonprofit status, the incubator and its heating system has a provisional patent, and Chen and Panicker are now in India conducting clinical tests of the Embrace. If all goes well, they will return to India later this year to test it in a community setting. See *EmbraceGlobal.org.*

MBA Snippets

It's not just the money...

Graduating MBAs from 11 biz schools rank importance of job attributes in 2003 research project.

SOURCE: "Calibrating MBA Job Preferences," a study of 759 MBA students undergoing job recruitment in 2003 at 8 U.S. and 3 European business schools, by GSB Professor David Montgomery and Catherine Ramus of U.C. Santa Barbara

Cellular Scold

Miss the way your mother used to remind you to sit up straight and eat your vegetables? Don't fret. Mom is back in the form of Wellphone, a digital nag that will help keep you on the straight and narrow-waisted.

Wellphone can be added to any cell phone at no charge. It reminds you when it's time to exercise, encourages you to record your progress, gives instant tips on nutrition or diet, helps you find a gym or a dental office in your neighborhood, and performs a host of other health and fitness-related services. Just like Mom! And the fact that Wellphone is portable means you know Mom is always looking over your shoulder.

The cellular scold was introduced last year by Wellsphere, an online wellness company founded in 2007 by **Ron Gutman** and **Dave Kashen**, both MBA '05. Wellsphere is both an information site and a social network, with some 1,500 bloggers who write about health-related topics at Wellsphere.com. By late 2008, the mothership Wellsphere was being visited by more than 2 million people a month.

Take Stock in the Now to Benefit Tomorrow

Even as they face an uncertain economy, today's business students can take comfort in the words of **Manuel Medina-Mora**, MBA '76, chairman and CEO of Citigroup Latin America and Mexico.

"Thirty years ago, I was where you are now," Medina-Mora said last November, recalling his graduation in the midst of a downturn that started with the Mideast oil crisis in 1973 and lasted until 1977. The current economic crisis is the fifth in his career, he said. "Economic cycles are always there, and those of us who understand that well can profit from it."

Medina-Mora, who spoke as part of the School's Global Speaker Series, urged his audience to pay close attention to how things play out. "What you can learn from what is happening today is going to serve you all your life," he said. "No matter what part of the world economy you decide to make your careers, this is a great moment to learn."

Manuel Medina-Mora, MBA '76

CFO: Chief Fall Guy for Too Many CEOs

Leadership involves qualities like competence, generosity, compassion, humility, and morality, **Mike McCaffery**, MBA '82, told Sloan Fellows during an informal discussion in October. Unfortunately, those sterling values weren't always on public display as the economy went into freefall late last year.

McCaffery is managing director and CEO of Makena Capital Management, which offers a pooled investment fund for small colleges and other investors much like the endowment fund he previously managed for Stanford. "As a leader, I hated the last few years of Wall Street," he said. "When bank after bank was having problems, who was the first person to go? The CFO. I think that's horrible. I mean, do you want to work for [A CEO] like that? I think when things are going badly, the leader should step up and take the blame.

"I have been struck by just how

TOP PHOTO: SILICON VALLEY BUSINESS JOURNAL. RIGHT PHOTO: STEVE CASTILLO. CHART: PETER HOEY.

For the Record

Employment Report: MBA Class of 2008

INDUSTRY	Percentage of Class	Median Base Salary	Median Signing Bonus
Consulting	27	$125,000	$ 20,000
Private Equity/LBO	14	$150,000	$ 32,500
Hedge Funds	8	$150,000	$ 25,000
Internet Services/E-Commerce	6	$ 115,000	$ 22,500
Investment Banking/Brokerage	5	$ 95,500	$ 40,000
Nonprofit	5	$ 80,000	NA
Venture Capital	5	$155,000	NA
Investment Management	4	$ 127,500	$ 19,125
Real Estate	4	$ 112,500	$ 15,000
Consumer Products	3	$100,000	$ 20,000
Pharma/Biotech/Healthcare	3	$ 103,750	$ 20,000
Consumer Electronics/Hardware	3	$ 115,500	$ 10,000
Media/Entertainment	3	$ 96,000	$ 20,000
Tech-Software	3	$ 110,000	$ 15,000
Other Services	3	$ 75,000	NA
Financial Services-Diversified	2	$ 115,000	$ 40,000
Petroleum/Energy	2	$ 110,000	$ 28,500
Manufacturing	1	$ 115,000	NA

Total does not equal 100% due to rounding.

TOP FUNCTIONS: Consultant, 29 percent; Private Equity, 16 percent; Investment/Portfolio Manager, 8 percent; Product/Brand Manager 8 percent

BASE SALARY: median: $120,000 (range: $30,000–$250,000)

SIGNING BONUS: median: $20,000 (range: $2,500–$200,000)

OTHER GUARANTEED COMPENSATION: median: $40,000 (range: $2,000–$250,000)

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

quickly some of the Masters of the Universe—the people who get the pencil sketches in the *Wall Street Journal*, the guys who make zillions of dollars—man, how quickly they have come back to Earth."

There's a big difference between competence and cockiness, McCaffery noted, and an oversized ego can kill. "The minute you think you're smarter than the other guy, boy, are you in for a comeuppance. Particularly in my profession, you don't just have other people to make you look stupid, the market can really make you look stupid!"

McCaffery sees a failure of leadership across the board. "I don't think leadership stays on the high road in this country," he said. "And I'm not just talking about business." He said he blames politicians, and even athletes, more than business leaders, "because I think they have more opportunity to lead us than business people do—and more and more they disappoint us."

Ballmer on Timing

Steve Ballmer, MBA class of '81, famously dropped out of Stanford Business School in 1980 to join his Harvard classmate Bill Gates in a "crazy little software company," Microsoft. Ballmer nearly quit the company soon after, when Gates wanted to increase employees from 30 people to 48. But he didn't leave, and some 91,000 employees later, he is CEO of the tech giant.

As Microsoft has grown, Ballmer's leadership style has had to evolve, he told a standing-room-only audience at the School's View from the Top series in September. What it took to be leader of a company with one line of business is vastly different from what is required to run Microsoft with its increasing number of products, including servers, consumer electronics, and information/media.

"We have big projects, little projects, incubation efforts, research, acquisitions, and internal development."

If he could change one decision he has made since becoming CEO in 2000, Ballmer said he would have pushed the company to start developing internet search products earlier. When he spoke, Microsoft had about 10 percent of the search advertising market, trailing both Google and Yahoo.

When asked by a curious student for more details about his decision to leave the Business School, Ballmer said it was the right thing for him to do at the time. "It's not for everybody. You've got to be in the right place in your life, and it's got to be the right opportunity." But if it is, he said, "you should seize it."

Search for Dean Begins

A search committee to select a Business School dean to succeed **Robert L. Joss** began its work in December. It is chaired by Stanford Provost **John Etchemendy** and **John Roberts**, the John H. Scully Professor of Economics, Strategic Management, and International Business at the School.

Other committee members include Business School faculty members **Jennifer Aaker**, **Erica Plambeck**, **Peter DeMarzo**, **Madhav Rajan**, and **Deborah Gruenfeld**; **Joseph Bankman**, Stanford Law School professor; **Stephanie Kalfayan**, University vice provost for academic affairs; Business School alumni **Gene Sykes**, MBA '84, and **Thomas Friel**, MBA '73; and students **Brad Hively**, MBA class of '09, and **Gabrielle Adams**, doctoral student. The final member is **David Kennedy**, Business School associate dean for development who recently became senior associate vice president in the Stanford University Office of Development.

In announcing the committee members, Etchemendy said the group would spend December and January gathering input from the Business School community about needs of the School and desirable characteristics for the next dean to possess, as well as recommendations for specific candidates.

In September Joss announced he would step down at the end of the current academic year after 10 years as dean.

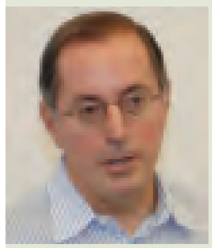
Communications to the search committee may be submitted electronically to *deansearch@stanford.edu*.

Repotting in Chocolate

When **Dana Packard**, MBA '92, a veteran of five startups in the 1990s, and her husband lost their jobs in the dot-com bust of 2000, it seemed time to reevaluate. While he studied winemaking, she wrote a business plan for Honest Chocolates and began selling confections online.

In 2004, the couple moved to Oregon's Yamhill Valley where her husband makes wine and she specializes in making chocolates that complement red wines and port. She and five part-time employees ship fall through spring when the chocolates won't melt in the mail, but in summer, you have to go to Oregon to taste.

Quotable



"All those other jobs molded me along the way."

Intel CEO **Paul Otellini** explaining that he deliberately worked in as many Intel departments as possible, including field operations, marketing, product development, and global sales, on his way to becoming the first non-engineer to head the chip-making company. He spoke in November as part of the View From the Top series.

PHOTO BY ANNE KNUDSEN.

Kirk Hawkins, Sloan '05, right, and Tom Poberezmy of the Experimental Aircraft Association unveil a new sport aircraft.

Fold-Up Flying Machine Goes 120 mph

It flies, it floats, it folds its wings. The Icon A5, a twin-seater in the recently designated class "light sport aircraft," made its public debut last year. Founder and CEO of Icon Aircraft is **Kirk Hawkins**, Sloan '05.

Hawkins, who has flown far more complicated planes, ranging from F-16s to Boeing 767s, aimed for a simple, user-friendly design that would appeal to recreational pilots. The plane's instrument panel appears no harder to read than a sports car's. The aircraft has a top speed of 120 miles per hour, runs on unleaded gasoline, and with its wings folded can be stowed in a garage, towed by a car, or carried in the back of a pickup truck. And just in case, there's an optional rocket-propelled, full-plane parachute.

The Icon A5 is priced at about $139,000. The company expects to begin deliveries in late 2010.

Another Way to Wager

When **Eric Baker**, MBA '01, cofounded the American online ticket exchange StubHub, people called him a scalper. Baker left StubHub in 2004 and moved to England to found the European ticket exchange Viagogo in 2006. There he's been called a tout.

But whatever you call the middleman between re-sellers and buyers of tickets for sports and entertainment events, Viagogo is flourishing in Europe and has expanded to the American market. One innovative product: the Viagogo "victory pass," which guarantees American football fans the right to purchase a Super Bowl ticket at face value if their team makes it to the championship game.

Scalped Super Bowl tickets have gone for many times face value in the past. For example, according to *Forbes*, in 2007 an average resold ticket for Super Bowl XLI between the Chicago Bears and the Indianapolis Colts sold for $4,004—on StubHub, as it happens.

Viagogo victory pass prices fluctuated as the season evolved. In late October, a pass for the then-unbeaten Tennessee Titans could be locked in at $1,132, versus $65 for the never-say-die fans of the hapless, winless Cincinnati Bengals.

Large Market for Small Ads

Say online video and *quality* isn't exactly the first word that springs to mind. But not all videos are created by 16-year-olds for their friends, and many top brands—like Wal-Mart, Visa, Sony Pictures, and CBS—have acknowledged that web video presents an audience worth tapping. These companies, their agencies, and other brands have turned to the online advertising network BrightRoll to find appropriate web markets for their products.

BrightRoll, cofounded by **Tod Sacerdoti**, MBA '03, provides pre-roll—user-initiated advertising that runs just before a video clip. BrightRoll marked its billionth hit for Zenith Optimedia, Hewlett-Packard's advertising agency, in September 2007, only 14 months after the company's founding.

Tableau Software Makes Numbers Dance

Tableau Software was a winner right out of the gate. The Seattle-based company's user-friendly data-visualization software was named a *PC* magazine "best product of the year" in 2005, the first year it was offered. Since then, Tableau, cofounded and led by **Christian Chabot**, MBA '00, has won other awards, including separate 2008 "best" citations for both its server and desktop software programs. It was also named one of the 50 fastest-growing software companies by *Inc.* magazine, and last fall announced series-B funding of $10 million for further development and expansion.

Tableau's software is based on a proprietary technology called VizQL, a visualization query language that makes information from databases and spreadsheets almost instantly accessible in an easy-to-read form. It was developed by Stanford computer scientists and Tableau cofounders Professor **Pat Hanrahan** and **Chris Stolte**, PHD '08, Engineering.

The Gang's All Here

In every office there are certain roles that don't have a job description. Consider, for example, the greeting card person—he or she who boasts a mental Rolodex listing every staff birthday and anniversary and skulks around with a paper Hallmark tucked in a file folder for officemates to sign before each special occasion. But times have changed, and thanks to GroupCard, founded by **John Anderson**, MBA '07, all the greeting card person has to do now is select an appropriate card online from GroupCard.com, then notify friends all over the world to add their wishes. The online message is free, but the company will print the card in permanent form for a fee.

Software Helps Artists Climb Music Charts

Only a year after cofounding Topspin, **Shamal Ranasinghe**, MBA '00, found himself and his company on the cover of *Billboard* as part of the magazine's first "Indie visionaries list." Topspin, one of 10 companies or performers so honored, provides independent musical artists and their agents with the tools they need to market their wares. The Topspin system organizes artists' music, fulfills orders, collects information about fans, and keeps track of all of the above and more.

"Individually, none of these ideas are in any way new," the magazine said. "But what's revolutionary about Topspin is how it aggregates all the tools needed to pursue any of these strategies into one easy-to-use platform." Information about Topspin can be found at *TopspinMedia.com*.

Trail Guide for Career Changers

After rebooting professionally a number of times, **Lee Callaway**, Sloan '77, repotted himself once again as an online resource for people—some retired, some not—who want to change their lives and take off in new, meaningful directions. Callaway's new venture for new venturers is a website called *RebootYou.com*, which both inspires and informs. It features stories about people who have successfully changed course, suggestions for volunteer and career opportunities, and a list of books, web links, seminars, and more, all designed to guide the rebooter-to-be.

by Connie Skipitares

Facing Mean Streets of Information Highway

LAST MAY, A CONNECTICUT WOMAN with a Stanford MBA was surprised by a stranger's phone call asking about her personal background. That's when she learned that a woman in Washington state with a similar name had apparently lifted details of her biography off the internet, including her graduate degree from Stanford, and was using it in her profile on an online social networking site.

The Washington woman, it appeared, had used the Google search engine to look for her own unusual name, and the Stanford MBA's biographical information popped up. With a few clicks, the data was hers. She used it to enhance her business profile on networking site LinkedIn.

In January, another Stanford alum, **Liz Lynch,** discovered that an Australian man had taken an article she wrote off the internet, slapped his own byline on it, and posted it on his website. Lynch, MBA '92, learned this when she tried to submit the piece to an online article directory, and the fake author's name surfaced. To add insult to injury, Lynch was accused by the directory of being the plagiarist.

Incidents like these show how life in cyberspace can bite. Even if you choose not to hop on the web and post information about yourself—the Stanford MBA from Connecticut had never joined a networking site—some information is out there somewhere and usually outside your control. As Sun Microsystems cofounder **Scott McNealy**, MBA '80, has said: "You have zero privacy. Get over it."

Some professional and corporate sites, for instance, post lists of organization members and rosters of company officers. Stanford faculty and deans are profiled at some length on School and professional websites. Many management positions such as officers of public corporations, nonprofits, or government agencies require the position holders to be listed publicly. In today's world, that does not mean just being listed in a corporate report, but also having a biography on the organization's website.

Life was very different before the internet. If you wanted to find out if someone had been sued, convicted of a crime, or licensed to practice medicine you would go to a local, state, or federal building and spend hours manually digging through paper or microfiche files. Today, government websites, or commercial websites that mine public records, make information on individuals easily available. While some feel personal information should be more private than it is, others note that individuals also benefit from the easy retrieval of information. Many web users, for instance, find jobs, old friends, professional contacts, or the loves of their lives through the internet.

In a survey of Stanford MBAs by the Business School Alumni Association, more than half of respondents who graduated since 2000 said they use GSB-specific social networking sites. Nearly 60 percent use sites such as Facebook and LinkedIn, and 35 percent of the recent graduates surveyed have their own website.

Lynch, who is executive director of the Center for Networking Excellence, which helps business professionals build relationships, uses the web to find potential customers, business partners, suppliers, and prospective employees for herself and others. "With more than 25 million members on LinkedIn, for example, you can find just about anyone you want to reach. What makes these sites so powerful is how they can facilitate passive networking, when people and opportunities find their way to you," she says.

For example, Lynch markets herself and her new book, *Smart Networking: Attract a Following in Person and Online,* by posting to her Facebook profile the videos she has made that offer tips on how to network. Her web "friends" send the videos to others and make comments back to her, which lets her build relationships "all over the world," she says. "I use Facebook primarily as a marketing tool, not as a social tool."

Lynch eventually resolved her issue with the plagiarist, whom she calls "Sam," by asking him to remove her article from his site. He did.

Identity problems on the internet may occur, but some alums argue the networking and informational benefits outweigh the risks.

But she vividly recalls her first reaction to seeing the article on his site: "I was literally shaking. It's like seeing a stranger walking around your house and wearing your clothes pretending to be you."

The Connecticut-based MBA whose graduate degree was lifted on LinkedIn ended up calling police in her small town to report the incident. A detective contacted the imposter and requested she remove the information from her online biographies. The woman denied knowing anything about how the information got on her LinkedIn profile, but it was removed. "I still felt violated," said the Stanford alumna, whom we are not identifying because we cannot prove that the person with the similar name intended to commit fraud. "I froze my credit accounts right away," the real MBA said. "I found out this woman had been prosecuted for insurance fraud, so I was nervous."

NONE OF THE STANFORD GRAD'S financial accounts were touched, but those in the business of protecting personal privacy say people who lift someone else's law degree, college transcripts, or other professional credentials often find their way into that person's financial data and exploit that, too.

"It all comes down to wanting some kind of personal gain or benefit, whether it's stealing a title or fancy degree or money," says Jay Foley, cofounder of the Identity Theft Resource Center in San Diego, a nonprofit that assists cybercrime victims. "You steal a degree because you want prestige that you hope leads to a good-paying job with lots of money. Money is usually the bottom line."

Owen Tripp, MBA '08, cofounder of ReputationDefender, a company that sells security services and helps victims clear up online profile problems, believes resume and credential theft is a growing problem in today's dismal economy. "Everyone's trying to get a leg up, to create a great resume that's going to get them that good job, or to build a better credit profile to help them buy that house," he says.

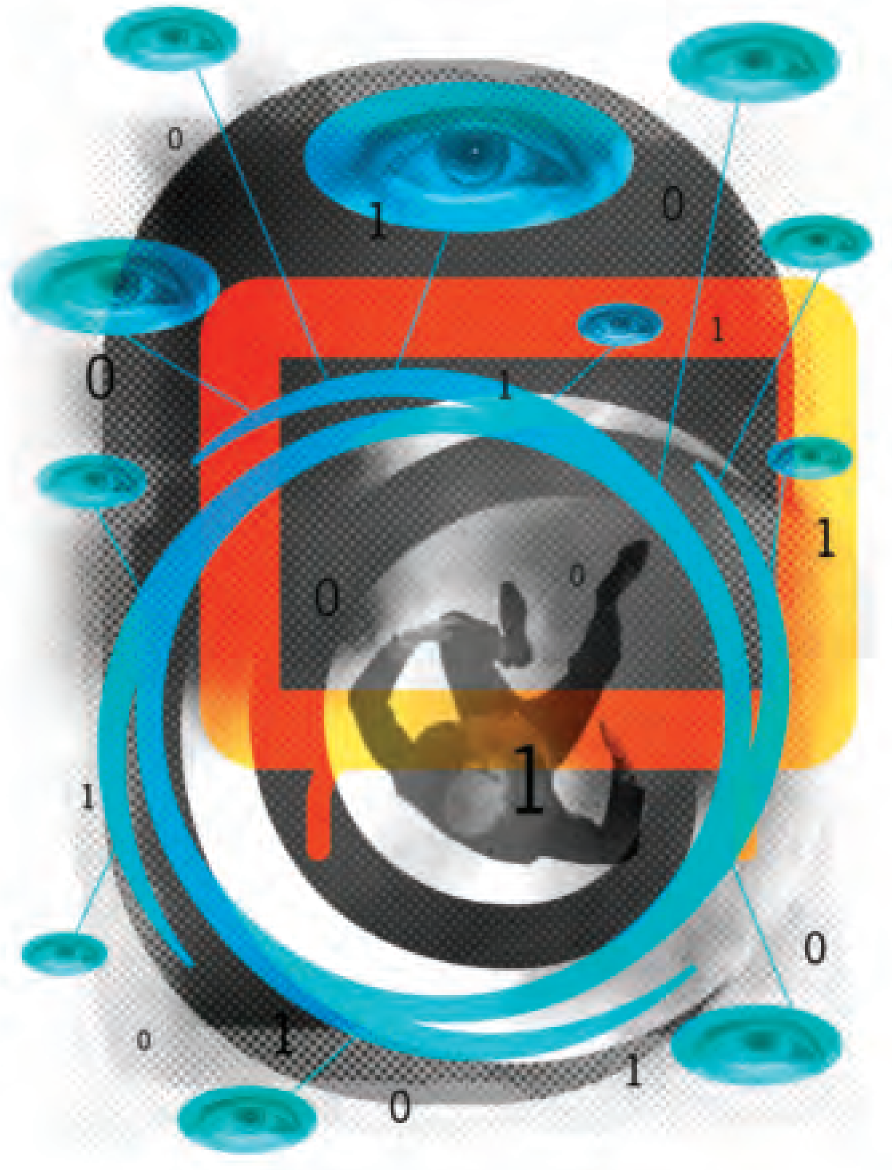
A host of recent surveys of job applicants conducted by companies and reported to sources such as New York Times Market Research and Nolo Press estimate that between 33 and 75 percent of job seekers exaggerate or lie on their resumes about such facts as job responsibilities and employment dates. But again, the web cuts both ways because employers and others also discover falsehoods by doing web searches.

Removing errors or embarrassing facts about yourself can be difficult, however. Many complaints that Tripp handles, for instance, are from people who feel ridiculed by postings such as doctored photos of themselves in a compromising situation or fake profiles on a website such as Facebook or MySpace. Some are revenge postings, often made by ex-spouses.

Websites "are not going to take down something by simple request," according to attorney Mari Frank, who handles such cases and was once a victim of someone stealing her identity and impersonating her for several months. "They need hard proof that something is inaccurate. You're up against a wall."

Some social networking sites offer web links to lodge complaints. A spokeswoman for Facebook, which does not allow its representatives to be identified by name according to the spokesperson we reached by telephone and email, said the networking site investigates complaints about postings and determines if they should be removed. She would not give specifics about what type of content is removed or statistics on the number or types of complaints. She said only that Facebook "takes quite a bit down."

A handful of new laws surrounding privacy and identity abuse on the internet have been enacted in the past three years, but they largely reiterate existing fraud laws that focus on victims of financial abuse. Protections should



be broadened to incorporate a range of abuses, says **Lauren Gelman**, executive director of the Center for Internet and Society at Stanford Law School.

"Financial gain is easy to quantify," she says. "But how do you quantify the harm of somebody using someone else's graduate degree, for instance? There is general fraud there, but there isn't a mechanism to deal with it."

A number of privacy protection firms offer assistance locating offenders and cleaning up a person's profile. Many, but not all, charge fees. The firms claim to have sophisticated technology to do "deep" searches that the average computer user cannot do. When a suspected offender is located, Tripp says his company simply contacts the person and asks that he or she desist. Surprisingly, the approach usually works. But in many cases, the damage has been done and can be long lasting. Offensive or fake postings can be removed from sites, but often they can lurk somewhere in cyberspace forever. A doctor whose identity was used by an imposter to commit Medicare fraud is still trying years later to convince people he is not the man who perpetrated the fraud.

That doesn't deter web fans like Lynch. "I'm not going to stop marketing myself online, just as I'm not going to stop shopping online," she says. "It's just too convenient and too effective, and the vast numbers of people I'm able to market my services to far outweigh the handful who might steal some of my profile information." ●

Connie Skipitares is a Bay Area–based journalist.

Persona Protection Practices

IF YOU ARE CONCERNED about your web identity, here are several risk-reduction tips from Owen Tripp of ReputationDefender, Jay Foley of the Identity Theft Resource Center, and the website of the Federal Trade Commission:

- **Frequently google your name and search other websites, including networking sites, to see where and how your name crops up.**
- **Sign up for a service like Google Alerts, which emails you when your name pops up on the sites it trolls in cyberspace.**
- **If you see a problem, tackle it quickly by contacting the website involved, police, or companies that specialize in removing errant data. Some charge a fee.**
- **If you create a profile on a networking site, consider limiting access to a select group of friends and colleagues. Date your profile so readers will know if it is current.**

ILLUSTRATION BY STUART BRADFORD.

He Engineered Longer Life for Amtrak

AS THE NEW VICE PRESIDENT of the central region at Union Pacific Railroad eight years ago, **Alex Kummant**, MBA '90, was roused from sleep by a 2 a.m. phone call. The network operations manager told him: "You better get to the airport because this is a big one." Two coal trains had collided halfway between St. Louis and Kansas City, after which a third barreled into the wreckage and derailed. Seventy-two cars were lying on their sides.

Luckily the on-board crews escaped with minor injuries, but helicopters were flying overhead and news crews were on the scene. "It was a reminder that the forces and masses are enormous in transportation, and the safety issues are always at the forefront," says Kummant, who until mid-November was president and CEO of Amtrak, where he also focused on safety, including lowering the risk of terrorism.

During his two years at the helm of the 38-year-old government-owned corporation, Amtrak ridership grew to a record 28.7 million people. With fuel prices on the rise and airlines cutting back service, each Amtrak route saw increases that averaged 11 percent in fiscal year 2007, and ticket revenues rose 14 percent to $1.7 billion. The economic downturn in late 2008 caused ridership to dip a bit on the Northeast corridor, but Kummant was able to help persuade Congress and the Bush administration in October to reauthorize Amtrak for five years, making it eligible to receive up to $14 billion in federal funds for capital and operating expenditures. As he pointed out, the energy and environmental benefits are great: Passenger rail is 18 percent more energy efficient than commercial airlines and 25 percent more efficient than cars.

The reauthorization also expanded Amtrak's board to nine members, which, Kummant says, would have made him a "lame duck" until new appointments could be made and a new majority was up and operating. In an organization that is difficult to manage anyway because the CEO's bosses include not only the board but any congressional committee chair who decides to call a hearing, he and the current board chair decided to part company shortly after the November general election. (Some bloggers contended Kummant and the board chair had differences of opinion over how to finance infrastructure improvements, but Kummant would say only that he is a "turnaround specialist" and it was time to move on.)

With help from record ridership, Amtrak's recent chief successfully lobbied Congress for rail-matching funds.

A longtime supporter of rail generally, he also says he was especially pleased that the reauthorization legislation created a federal-state matching fund that allows the federal government to fund 80 percent of a state project. "This is important because it allows states to leverage their capital dollars by the same percentage that they do for highway projects."

Two other matching funds also were created, one that would allow the secretary of transportation to mitigate rail congestion for passenger and freight trains that use the same tracks, and another to develop corridors for high-speed rail, defined as trains operating at more than 110 miles per hour. Kummant hopes that any economic stimulus package will include rail infrastructure expenditures because, he says, an improved freight system would help the United States achieve energy independence but needs infrastructure upgrades beyond the resource capability of the freight railroads.

Alex Kummant, MBA '90, who until recently was president and CEO of Amtrak, outside of Union Station in Washington, D.C.

PHOTO BY ERIKA LARSEN.

The 48-year-old Kummant, who grew up in Amherst, Ohio, has had trains in his blood since he worked on a track crew for the short-line Lake Terminal Railroad when he was 18. He comes from a family of immigrants who had to start over many times. During the Russian Revolution, three of his grandparents had to leave Russia, after they had emigrated there from Germany. After World War II, both his parents separately fled Europe for a better life in the United States. His father's career in the steel industry, Kummant notes, might be partly what inspired him to railroading. He earned engineering degrees from Case Western Reserve and Carnegie Mellon before enrolling in the Stanford Business School at age 28.

"Everyone joked about how we got in, and in my case it was that I was a slightly geeky engineer-type from corn-and-potato country in northern Ohio as opposed to the 500 applicants who were working at investment banks at the time," he says. "I think people who structure these classes are looking for a blend of cultural and geographic backgrounds as well. Many of us probably felt intimidated until we realized that everyone felt that way."

One of Kummant's professors was Hoover Fellow **John Cogan**, who had been associate director in the Office of Management and Budget in the Reagan administration. In Cogan's course on the federal budget, Kummant learned what appropriators had to deal with and still remembers an assignment to watch how a policy announcement about the budget got spun on the Sunday morning TV shows. Cogan remembers Kummant as one of two "principled and conservative" students in a class where most students had liberal leanings. "They've stood out as no other students in my teaching experience at Stanford, and neither of them was a shrinking violet," he says. "Many students who disagree tend to let something go, but not Alex."

After Union Pacific, Kummant became vice president of North American operations at Illinois-based Invensys Controls, a manufacturer of smoke alarms, thermostats, timers, and other electronic products. Chan Galbato, company president at the time, says Kummant turned the troubled appliance division around in less than a year. Besides his charisma, "Alex has a real talent in his ability to strategically assess a business and motivate a team, and he's not afraid to make decisions," Galbato says.

During his time at Amtrak, Kummant worked on getting new labor agreements and security and marketing improvements. To the Amtrak police department he added a counterterrorism unit and intelligence linkages, and he expanded marketing by launching special event trains to expose more Americans to rail service. Besides physical infrastructure, human resources will be an issue for Amtrak, he says, because it faces an aging baby boom workforce and a brain drain given its lower salaries for technically skilled people.

Now that Americans seem to want more rail service, Kummant said last autumn, "Amtrak is like the dog that caught the car: We have to get the organization in shape and ready to grow, spend capital, and build new services." Besides adding trains, that means tackling aging tracks, bridges, tunnels, and overhead wiring. As he cleaned out his Washington office in November, he said he was still happy to do anything he could to help Amtrak and rail service generally but it was time to move on to the next turnaround assignment.

Just how technically and financially feasible is an Amtrak expansion, given the high cost? Very, Kummant insists.

"In many cases, we could develop intercity rail corridors in partnership with the freight railroads for less than $1 billion in capital, which is small potatoes compared to highway spending. An interchange alone can cost from $200 million to $500 million. So [with] single-digit billions in single-digit years [to complete projects], we can build meaningful rail corridors."

Pat Olsen is a New Jersey–based journalist. Editor Kathleen O'Toole contributed to this article.

Lessons from Presidential Debates

THE 2008 PRESIDENTIAL DEBATES seemed a perfect vehicle for getting GSB students to focus on the power and pitfalls of their own communication. Using the three presidential and one vice presidential debates as our primary "text," **David Demarest**, Stanford's vice president for public affairs, and I asked students to analyze the exchanges for key elements of successful communication.

Before coming to Stanford Demarest worked for George H.W. Bush as communications director in the 1988 campaign and then for four years in the White House. In our half-quarter elective, called *Political Communication*, we sought to blend his practical experience in politics with my knowledge of communication theory. Both theory and practice suggest that communicating to large, diverse audiences requires discipline, flexibility, honesty, and rehearsal to make sure the points you want to make are actually what listeners take away.

Television debates have drawn large audiences since the first four in 1960 between Richard M. Nixon, left, and John F. Kennedy.

We were a bit disappointed that the debates didn't provide the kind of defining moments of some past candidates' debates. We waited for a sound bite like Lloyd Bentsen's "You're no JFK" or a gaffe like Gerald Ford's adamant statement in 1976 that Poland was not under Communist rule. We hoped for a turn of phrase like Ronald Reagan's famous "There you go again" or even a moderator's show-stopping question like Bernard Shaw's question to Michael Dukakis of how he'd respond if his wife, Kitty, was raped and killed. By our measure none of those classic debate moments emerged this year.

We witnessed some interesting elements, however, from Governor Sarah Palin's winks to Senators John McCain's and Barak Obama's 26 mentions of Joe the Plumber in the final debate. And, like a tasty dessert at the end of a good meal, we watched and analyzed the "debate after the debate" when both Obama and McCain appeared in good humor at the Al Smith Dinner in New York the night after their third and final debate. We began the class with nearly one-fourth of the students undecided about who they'd cast a vote for, and ended with all having reached a decision—84 percent opting for President Obama.

An MBA course helps students see the challenges of delivering messages to large, diverse audiences.

It would have been easy to simply use the debates as entertainment or for current events discussion. Instead we challenged the students to consider the debates a prism through which they could reflect on their own communication abilities and apply lessons to their own lives. In their final papers, they applied their learning to their careers.

"Focused on my startup, I entered my second year with a plan to only take classes that are related to this project," wrote one young man, who, nevertheless, broke his rule for our course and found he "learned communication techniques that would help me with the startup." He and his partners had blown their first meeting with potential partners for a pilot of their idea. "Unlike the first meeting where we came off as young, cocky know-it-alls, we approached the second meeting like teammates rather than salesmen. Together we explored the problem, understanding their needs to customize a solution. We built trust and connected; we were able to construct a cohesive narrative through which we presented our technology and offered our results."

A young woman discussed how she would communicate with government leaders when she returns to Bangladesh and tries to work for social progress. "This election and this class have taught me to stay true to myself in my future endeavors, to win on my own terms, and last, but certainly not least, to use effective communication," she wrote.

Another student, bound for private equity, compared the setting of a presidential debate to his more likely role "presenting to management, limited partners, and colleagues on the appropriate leverage level for a cyclical business." In both cases, he said, the salient lessons are the same: "Be myself, come prepared, spin a good narrative, and demonstrate flexibility and thoughtfulness."

There could be some students in this class who will someday run for office, but more likely, they will use the lessons from the debates to improve their communities and companies by being authentic, prepared, flexible, and compelling, all elements we purposefully designed as a part of this course's inaugural run. Admittedly as a member of the faculty there are some drawbacks to teaching with presidential debates as your text; I now have to wait four years for another opportunity.

JD Schramm is a senior lecturer in management who leads the Critical Analytical Thinking Writing Program and teaches electives on oral and written communication topics.

THE JOSS DECADE

After his arrival in 1999, Robert L. Joss steered the School into the 21st century **with a new curriculum, new campus, and multidisciplinary collaborations.** We look back at his decade of leadership as he prepares to pass the baton in September.

by Barbara Buell

ASK PEOPLE FOR THE ESSENCE OF BOB JOSS and inevitably they say the Business School's eighth dean is a superior listener. They also say: Authentic. Credible. Persuasive. Quiet. Confident. "What you see is what you get," says **Travis Everton**, a second-year MBA who took the dean's *Leadership Perspectives* seminar last fall. The students wrote in their evaluations that they wanted to know more about their teacher's personal leadership choices. Result: Joss and his wife, Betty, made dinner for the 16-person class three weeks later. "He's sitting with us in his living room, telling us about his career decisions," Everton said. "What added to his authenticity is a real humility and unpretentiousness that makes him very approachable."

Everton and **Mike Hyatt**, both married students, were impressed with Joss' taste for risk and the extent to which he involved his wife in his decision to leave the comfortable vice chairmanship at Wells Fargo in 1993 for the CEO job at troubled Westpac, a large Australian bank. As Joss turned around the firm, its market valuation tripled in his six years there.

Vanessa Scotto, MBA '08, didn't have Joss as a classroom instructor, but she senses his leadership style rubbed off on her anyway. Once the hard-charging captain of her college soccer team, she had received workplace feedback that she moved too fast and left others behind. Through the School's new Leadership Development Program that Joss was keen to add to the academics, Scotto learned to be more inclusive. As a Leadership Fellow coaching first-year students in her second year, she said she experienced "so much more power in the group deciding where it wants to be versus the leader telling them where to go. It's that kind of empowerment that I think the dean was able to create at the GSB."

"I DIDN'T COME WITH EXPECTATIONS. I JUST KNEW WE COULD MAKE IT BETTER." —Dean Robert L. Joss

Joss would probably agree, if you could get him to acknowledge the compliment. "I didn't come with a 100-day agenda," he said after a standing ovation from 250 staff members last November. "I didn't come with expectations. I just knew we could make it better."

In just the last few months, Joss has had to cope with an unexpectedly deep economic recession that is sure to steeply reduce endowment income. As a prudent banker, a new priority is streamlining budgets to keep the School in strong operational shape for the next dean. Despite this recent challenge, as Joss, 67, moves into his final months as dean of the Stanford Graduate School of Business, it is hard to overstate just how much has been accomplished in what will be a decade at the helm. First, the School launched a highly personalized MBA curriculum with more global content and more leadership development. Second, a spectacular new campus of eight buildings around three quadrangles is under construction to house the new program and create greater interaction with other departments on campus. Third, the School has become a vital player within the broader University. Importantly, the faculty has been strengthened. Executive education has expanded, and new centers in global business, leadership, and social innovation have created a critical mass of research, activities, and outreach.

Listening and asking for feedback have been cornerstones of Dean Robert Joss's leadership.

PHOTO BY STEVE CASTILLO.

HE IS "ABLE TO AMALGAMATE FORCES ON AND OFF CAMPUS IN A WAY THAT HE COULD FORM A VISION OTHERS COULD JOIN."
—Steven Denning, MBA '78, chairman of General Atlantic

Joss gave a faculty-alumni committee led by Professor **Garth Saloner** the freedom and resources to innovate the curriculum, and he championed collaboration—an increasing role for management education—within the University. The School added joint MBA degrees in education, environmental resources, and public policy to the existing JD/MBA and MBA/MD programs, and is reforming the latter two. The dean's boss, Stanford Provost **John Etchemendy**, said Joss "can often be clarifying and make people see how to move forward on a difficult issue. It's fair to say the [University] graduate initiative came directly from a remark Bob made at the Executive Cabinet."

That initiative builds on Joss's articulation of the increasing need for Stanford to cross-train graduate students if they are to be strong leaders in their disciplines. He hatched the idea of a Summer Institute for Entrepreneurship, a four-week program for nonbusiness graduate students developed by Saloner. Cross-school electives such as *Biodesign Innovation* appeared, exposing MBAs to engineers, physicians, attorneys—the kinds of people they might encounter after business school. Special sections of the established course *Formation of New Ventures* now include nonbusiness students.

How did he do it? "Bob is an astute and perceptive listener and as a result was able to amalgamate forces on campus and off campus in a way that he could form a vision others could join," said **Steven Denning**, MBA '78, chairman of General Atlantic, a member of the School's Advisory Council for more than a dozen years, and a Stanford trustee.

"He's very persuasive," said **Pamela Matson**, dean of the School of Earth Sciences, who attends University cabinet meetings with Joss. "He pushed us to think about interdisciplinary education as well as research, recognizing that educating today's leaders means providing them with a broader set of skills and knowledge."

Turning the tiller within the Business School was not so easy. When Joss arrived in 1999, the School's academic reputation was strong, but there was growing competition for top-notch business school professors in a super-heated higher education market. Faculty retention and morale were low, partly

1. *Joss greets Mellody Hobson, president of Ariel Investments, on campus in April 2008.* **2.** *As a PhD student in 1968, Joss spent a year as a White House Fellow.* **3.** *Joss passes out diplomas at the 2007 graduation.* **4.** *In the Sloan classroom, Joss reflects on his approach to leadership.*

TOP PHOTO: STUART BRININ. RIGHT CENTER: SAUL BROMBERGER/SANDRA HOOVER. BOTTOM: STEVE CASTILLO.

because there was friction in the student-faculty culture. Some students were blowing off class in the frenzy of the dot-com boom. "The School didn't have the sense of purpose it had in the '70s and '80s," said **David Kreps**, the senior associate dean for academic affairs. "The 75th Anniversary in 2000 was a great celebration of where we had been, but it was less clear where we were going. Bob turned that around."

The malaise went well beyond Stanford. "There was a lot of press about how management education had lost its way," said Richard Schmalensee, former dean of MIT's Sloan School of Management, who got to know Joss at deans' meetings. "Bob thought hard about the issue; it's one that we all confront."

Joss was well prepared for the job: He had spent his whole life working in large, established institutions: the U.S. Treasury (founded 1789), Wells Fargo Bank (1852), and Westpac (1817). The Business School, founded in 1925, was his youngest employer, he recently told alumni. "He is really good at understanding organizational culture," Kreps said. "Bob gets it."

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"WE NOW HAVE A GENERATION OF OUTSTANDING PEOPLE WHO GOT TENURE HERE. THE FUTURE OF THE SCHOOL DEPENDS ON THEM."

—David Kreps, senior associate dean

Growing and developing the faculty was a priority. In the 15 years before Joss, the School lost most of an entire generation of faculty who began their careers at Stanford. Some of the holes were filled by recruiting senior faculty, but schools rely on professors who come up through the ranks. "We now have a generation of outstanding people who got tenure here," Kreps said. "The future of the School depends on them." Tenure-line faculty head count is up from 73 in 1999 to 102, and a dedicated associate dean for faculty recruiting and retention is on board. "He thought carefully about how to recruit and retain and did so in a holistic way," said marketing Professor **Jennifer Aaker**, who left Stanford for two years at UC Berkeley's Haas School of Business but returned last fall and is a member of the search committee for the new dean. "Joss and the deans didn't just focus on salaries; they addressed concerns such as the promise to build faculty groups and supported dual-career situations."

Staff and faculty report that Joss is an accessible, ubiquitous boss. Every email is returned. "Nothing goes out of this office without him reading every word; that's his attention to detail," said **Sandy Jackson**, his assistant. "You feel Bob's presence much more in the building than previous deans," said Kreps, who has been at the School since 1975. Economist **Yossi Feinberg** agreed. "When I got tenure,

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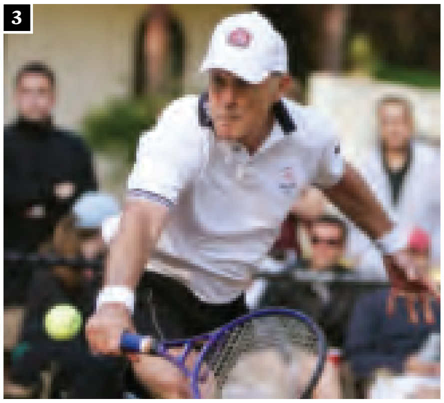

1. *Joss sings at a 2005 carnival with associate deans, from left, George Parker, David Kreps, and Dan Rudolph.* **2.** *Joss, center back, celebrates with a 1999 student athletic team.* **3.** *In the 2007 "Wimble-dean" tournament, Joss and his partner defeated a student team.*

TOP PHOTO: ANNE KNUDSEN. CENTER: STEVE LACEY. BOTTOM: COURTESY OF DAN RUDOLPH.

NIKE FOUNDER PHIL KNIGHT, MBA '62, GAVE HIS VOTE OF CONFIDENCE WITH A $105 MILLION DOWN PAYMENT FOR THE NEW CAMPUS IN 2006—THEN THE LARGEST GIFT EVER TO A BUSINESS SCHOOL.

it was clear to me he was on top of what kind of research I was doing. It's motivating."

Joss appealed to alumni in new ways. Lifelong Learning programs engaged graduates who wanted to experience the School's intellectual life and reconnect with each other. Joss capitalized on the 76-member Advisory Council, senior alumni and others who advise the dean, by genuinely involving them. Initially, he was skeptical about the scope of the new campus, but the Council pushed him, and he listened. In return, he secured their promise to help raise the $350 million necessary. Nike founder and chairman **Phil Knight**, MBA '62, gave his vote of confidence with a $105 million down payment for the new campus in 2006—then the largest gift ever to a business school. "People believe that when Bob commits to something he has the capacity to see it through," said **Gene Sykes**, MBA '84, Goldman Sachs managing director, Advisory Council chair, and another search committee member.

THE DEAN'S LEADERSHIP and love for academics were evident early. His father was a PHD economist for the federal land bank in Spokane, Wash. His mother was a teacher. Serendipitously, Spokane produced both Joss and Kim Clark, the dean of Harvard Business School for 10 years until 2005. Joss was an outstanding student, ace basketball player, and student body president, recalls his mother, Hannah, now 94. At the University of Washington, he was again student body president. An accomplished pianist, he rarely plays in public, but often for family.

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1. *Joss interviewed Microsoft CEO Steve Ballmer, MBA class of '81, in 2007.*
2. *Phil Knight, MBA '62; Joss; and Stanford Provost John Etchemendy at the 2008 groundbreaking for the new Knight Management Center. Knight is leaving his footprint in cement.*

LEFT PHOTO: COURTESY OF MICROSOFT CORP., RIGHT: STEVE CASTILLO.

JOSS IS "VERY COMPETITIVE IN A FOCUSED, UNRELENTING WAY. HE LIKES TO BE IN THE VORTEX, EVEN THOUGH HE'S NOT IN THE SPOTLIGHT."
—Professor George Parker

"The minute he comes to see me, he always goes to the piano," said his mother. She appreciates weekly phone calls from the son she remembers as a risk taker: At age 10, he stood on the railing of a New York ferry determined to get the best photo of the Statue of Liberty with his first camera.

After college, Joss began his long relationship with Stanford, entering what is now the Sloan Master's Program in 1965, earning an MBA in 1967 and his PHD in 1970. (His son, daughter, and son-in-law also have Stanford degrees.) He considered an academic career but accepted a White House Fellowship instead. After three years at the U.S. Treasury, Business School Dean **Ernie Arbuckle**, then chairman of Wells Fargo, introduced Joss to the bank. Twenty-two years later, Joss was vice chairman before he headed Westpac.

Finance Professor **George Parker**, who met Joss on the first day of their PHD program, described his old friend as "very competitive in a focused, unrelenting way. He likes to be in the vortex, even though he's not in the spotlight." That competitive edge is evident on the tennis court, said **Dan Rudolph**, MBA '81, senior associate dean for operations and a doubles partner in "Wimble-dean," a tournament of students versus deans. "He never gives up."

While measured and inclusive, Joss can make hard decisions like turning down a gift that is too restrictive, telling an alumnus his child has not been admitted, or switching professional firms during construction planning. "He never delegates or ducks these difficult calls," Rudolph said.

With less than a year left as dean, Joss has difficult work still ahead. Thanks to record fundraising and the stock market, the School's endowment nearly tripled to $1 billion by summer 2008—though it has significantly lost ground due to financial market turmoil. Joss is now trimming budgets and reducing staff in the face of falling revenue. He wants to ensure solid ground for the next dean in September. He plans to chair a University fundraising committee and will likely still be modeling the importance of listening, feedback, and humility in another leadership seminar next fall. ●

» Greg Hawkins, MBA ’88, asked congregants what they got out of attending Willow Creek Community Church and was shocked by their answers.

Marketing

Today he is promoting mass customization to thousands of other churches.

by William C. Symonds

FOUR AND A HALF YEARS AGO, Greg Hawkins—executive pastor of the mammoth Willow Creek Community Church near Chicago—received the kind of news most ministers would want to bury. Hawkins, MBA ’88, who worked at McKinsey & Co. before Willow Creek, had commissioned one of the nation’s foremost marketing experts to survey the church’s members. At the time, he had never dreamed the study would uncover anything disturbing or controversial. After all, Willow Creek had been so successful that many considered it the most influential church in America. Yet he was being told the study had found that nearly one out of four of Willow’s members felt stalled or dissatisfied, and that many of these were considering leaving. Hawkins knew that if these findings were released, they could ignite a firestorm both inside the church and among the many critics of evangelical megachurches.

But Hawkins, who took a 90 percent pay cut when he left McKinsey for his first job at Willow in 1991, has never shirked from taking risks for his faith. So rather than bury the report, he launched an effort to use the research—known as Reveal—to help remake Willow Creek so that it could better meet the needs of dissatisfied parishioners. His campaign got off to a rocky beginning. Hawkins’ first job was to persuade Bill Hybels, the charismatic founding pastor of Willow Creek, who had spent three decades building it into a mecca with five campuses, an average weekly attendance of 23,000, and a $54 million annual budget. “When I first heard these results, the pain was almost unbearable,” Hybels recalls. “You never like to hear that the people you have given your adult life to serve are on the side of the road and not progressing.” Today, Hawkins’s gamble seems to be paying off in a big way. Willow Creek has overhauled its former

PHOTO BY McSHANE FLEMING STUDIOS.

one-size-fits-all approach in favor of trying to cater to the varying spiritual needs of its members. “Reveal has revolutionized the way I look at the role of the church,” says Hybels. “It affects how we plan our services, the ministries we launch, and is the lens through which we look at everything.” More important, because so many churches look to Willow for leadership, Reveal is reshaping evangelical Christianity to use mass customization.

The Willow Creek Association—the church’s huge consulting arm—is urging its 12,000 member churches to use the Reveal tools. In October, Hawkins led the first conference on Reveal at Willow Creek, drawing over 1,700 leaders from 600 churches. “Initially, Reveal scared some people away,” says David Loveless, senior pastor

God’s Word

Willow Creek Community Church, headquartered in the Chicago suburb of South Barrington,Ill., left and above, draws more than 23,000 worshippers a week. Executive pastor Greg Hawkins, MBA ’88, above right, encourages leaders of other churches to adapt consumer-survey techniques to increase the satisfaction of church members.

TOP LEFT PHOTO: JOHN GRESS/REUTERS/LANDOV. RIGHT: COURTESY OF WILLOW CREEK ASSOCIATION.

of Discovery Church, a megachurch in Orlando, Fla. “But now there are leaders all over the world who know about Reveal. I believe this will impact tens of thousands of churches in the next few years.”

If so, it could accelerate the market-share shifts that have been reshaping American Christianity for decades. After World War II, American society was dominated by “mainline” Protestant denominations, notably the United Methodist, Presbyterian, Evangelical Lutheran, and the Episcopal churches. But since 1960, these denominations have lost about half their market share while the evangelical denominations and churches enjoyed robust growth and now outnumber them. (The U.S. Catholic Church has remained relatively stable, claiming about 22 percent of the population as members.) Evangelicals tend to ascribe to more conservative theological views than the mainline churches. Most believe that Jesus Christ is who he said he is (the son of God), that the Bible is the literal word of God, and that as Christians, they have an obligation to tell other people about their faith and persuade them to become Christians. Today, “the evangelicals are the most vibrant branch of Christianity,” says pollster George Gallup Jr.

The most striking evidence of the evangelical success has been the explosive growth of megachurches, defined as Protestant churches that attract at least 2,000 weekly worshippers. There are now some 1,200 evangelical megachurches, up from just 50 in 1980, according to the Hartford Institute for Religion Research.

“Willow Creek has been a leader in almost every innovation” that has fueled this growth, says Bob Buford, chairman of the Leadership Network, which works with megachurch leaders. “And with Reveal, Willow is helping these churches move to mass customization, which will dramatically increase their effectiveness and growth.”

During his days as a Stanford graduate student in the late 1980s, Hawkins never dreamed he would end up on the cutting edge of Christianity. Sure, he was a believer who attended Bethany Lutheran Church in Menlo Park and faithfully read his Bible. “I felt a strong closeness with God and Jesus,” he recalls, but also that religion was a private affair. Like most of his classmates, he assumed he was headed for a career in the upper reaches of corporate America. After all, as an undergrad at Texas A&M, he demonstrated his leadership potential as president of the Memorial Student Center, one of the most powerful positions on a campus with over 40,000 students. That gave him access to an elite alumni network, which led to a job as an analyst in McKinsey’s Houston office. After two years at McKinsey, Hawkins applied to both Stanford and Harvard business schools and was accepted at both. He chose Stanford partly because he got a personal call from the admissions director inviting him to come, while Harvard sent its standard acceptance letter. Moreover, after talking with McKinsey colleagues who had graduated from Harvard and Stanford, “I found I liked being with the Stanford alums more,” he says. He was also attracted by the culture they described as more collaborative and less competitive.

"Stanford was a fantastic place for me," Hawkins recalls. Because he had majored in civil engineering at A&M, he enjoyed the more quantitative classes that some classmates found challenging—including macroeconomics and investing. Each quarter, he challenged himself to "really master one class" while also making time to broaden himself. He cultivated an interest in cooking—serving as food editor of the *Reporter*, the student newspaper—and began painting abstract art, a hobby he still enjoys. Nevertheless, "even after two years at Stanford, I didn't know what I wanted to do." So he went back to McKinsey, this time to the Chicago office, where he worked with clients ranging from New Zealand's Fletcher Challenge to Chicago's Inland Steel.

THEN ONE SUNDAY IN OCTOBER 1989, he accepted an invitation to attend a service at Willow Creek, which was just beginning to gain national attention. "It was one of those truly defining moments," Hawkins recalls. That Sunday, Bill Hybels delivered a clarion call to more than 3,500 people. "Ninety-five percent devotion to Christ is 5 percent too little," Hybels thundered, as he described the kind of commitment Jesus expected. Hawkins was riveted. "I had been waiting my whole life for someone to call that out of me," he says. And that soon spurred Hawkins to reconsider his career path. Within a little more than a year he left McKinsey and accepted a position as an intern at the church where he worked to expand its networks of small groups in which members gather to discuss their lives and faith.

Initially, Hawkins saw his internship as a one-year stint, but he met a woman at Willow—Lynn Leverentz—who would soon become his wife, and discovered that he had a deep calling for the work of the church. He also was really good at it. "From the first time I met him, I knew that he was a very unusual and talented guy," says Hybels, who asked Hawkins to join the leadership team. Soon his role was expanded to executive pastor, a job that requires him to oversee the paid staff, which now exceeds 500. This sudden rise would have been impossible in many Christian denominations, which require leaders to have extensive seminary training. In contrast, Hawkins has never formally studied theology. But Hybels sees value in business training. In fact, in addition to hiring Hawkins, he also tapped Jim Mellado, who has an MBA from Harvard, to lead the Willow Creek Association. "Both these men are devoted Christ-followers," Hybels says. "But they've had some of the best training in the world, and we've never faced a problem that has intimidated them."

As Willow's executive pastor, Hawkins is paid a modest salary compared to the millions he would have earned had he stayed in consulting for McKinsey. But his lifestyle is far more balanced than that of most executives. "He is one of the best fathers and husbands I've ever known," Hybels says. Hawkins has three children, ages 12, 10, and 7. "In the middle of events with thousands of people, you'll see him sneaking out the back to attend his son's football practice or a school function," says Hybels. And Hawkins regularly makes breakfast for his family and is home by 5 p.m. to help with dinner and homework.

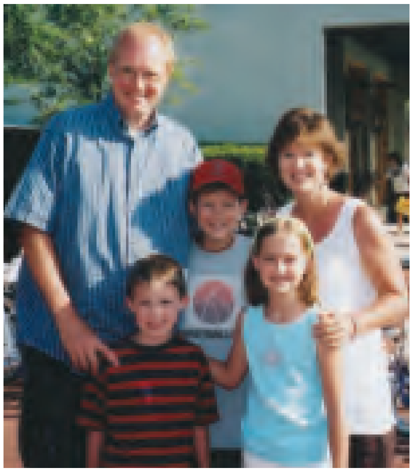
Not surprisingly, Hawkins is also a big believer in strategic planning, which has been vitally important to Willow Creek since he joined the staff. Willow Creek was founded by Hybels in 1975 to serve people he called "seekers," defined as those who are curious about God but who often haven't been attending church. Prior to founding Willow, Hybels did his own market research in which he asked thousands of people living in the Chicago suburbs why they didn't go to church. They told him they found conventional churches "boring," too focused on money, and irrelevant to their lives. Willow catered to them by offering a church stripped of traditional trappings. There are no stained glass windows or pews in its auditorium, for instance, and worship services aren't structured with liturgies or rituals. Instead, every effort is made to relate the Bible to the lives of the people who attend. Willow offers a multitude of other programs, from small groups in which members can form close bonds to classes for people going through divorce, job loss, or other personal problems. By 1989, when Hawkins first attended, Willow had become one of the largest churches in America, with some 12,000 attending weekly services.

This growth attracted lots of calls from other churches eager to learn the secrets behind Willow's success. In 1992, Hybels launched the Willow Creek Association to teach other churches how to follow Willow's example. By 1998, management guru Peter Drucker, who was deeply inspired by Willow, was calling the growth of megachurches "the most important social phenomenon in American society in the last 30 years."

By the late 1990s, with weekly attendance reaching 18,000, Willow was bulging at the seams. So Hawkins led a strategic planning process that developed an ambitious expansion program. In 2000, Willow launched a capital campaign that raised $81 million—a record for any church up to that point—to build a stunning, 7,200-seat sanctuary. Willow also opened four satellite campuses to better serve members who lived more than 30 minutes from its main campus in the affluent suburb of South Barrington, Ill.

In 2003, with the new sanctuary about to open, Hawkins was ready to fire up the strategic planning process again. Just then, his colleague Cally Parkinson introduced him to Eric Arnson, a marketing guru she'd gotten to know during a 20-year career at Allstate. Arnson had founded a firm that helped Allstate, Gatorade, Nike, and other brands better understand their customers. His ability to help companies predict consumer behavior was so powerful that in 2000, McKinsey bought Arnson's company and made its intellectual property a core part of their practice. In 2003, when he met Hawkins, Arnson had just left McKinsey.

As a devout Christian, Arnson was willing to volunteer his time to apply the same research techniques to church members. Until then, most churches, including Willow, measured their effectiveness by asking how many people they were attracting and how many dollars they were collecting. By those measures, Willow was one of the most successful churches in America. Arnson suggested that instead of looking at numbers, Willow should focus on the inner spiritual lives of its



Greg Hawkins with his family, from left, sons John and Jack, daughter Aubrey, and wife Lynn in 2008.

PHOTO COURTESY OF WILLOW CREEK ASSOCIATION.

members, especially how close they were to Jesus Christ. He then segmented members into four categories, from those "exploring Christ" to the "Christ-centered," who are totally committed. Using this lens, his survey found that even as people grew closer to Christ, they tended to become less satisfied with Willow Creek. In other words, Willow was doing a better job of meeting the needs of seekers than of its more fervent believers. Yet Arnson's research showed that half of Willow's members fell into the two most fervent segments of believers: "close to Christ" and "Christ-centered." Moreover, these committed Christians were the very people who were the most important to Willow's long-term growth and vitality.

At first, this news came as a huge shock. "We went through our own stages of denial—anger, sadness, depression, the works—until we could finally embrace the brutal truth: We needed to change," says Hawkins, who assumed the role of the leader and champion of Reveal. "But once we got through the denial, we changed Willow a ton."

"We went through our own stages of denial—anger, sadness, depression, the works—until we could finally embrace the brutal truth: We needed to change."

Hybels and Hawkins realized they had to customize their offerings to better meet members at various stages of the spiritual journey. For example, for 30 years, Willow offered a midweek service for all believers. Everyone received the same teaching. Now, after a brief worship service, members disperse to attend one of 15 to 20 courses, ranging from those for new Christians to demanding theology courses taught by seminary professors. Similarly, Willow's thousands of small groups dropped the one-size-fits-all model. They are now using an approach akin to a university, Mellado says. "Reveal informs our whole strategy of resource allocation, and the whole point is to encourage life transformation." In other words, the objective is to create more people who are totally committed to Christ, because these people are the most effective evangelists. So far, Willow's leaders believe Reveal is working. "The feedback from Willow's members has been very positive," Arnson says. "People feel like their needs are being met more than before." Willow plans a more scientific survey of member satisfaction this year.

NOW THE WILLOW CREEK ASSOCIATION is aggressively encouraging other churches to use Reveal. Since 1992, it has ballooned to a $32 million organization with 12,000 dues-paying member churches from 90 denominations, including churches from such mainline denominations as the Methodists and Lutherans, and even some Catholic parishes. But while the Willow Creek Association used to focus on teaching other churches how to emulate Willow's successes, now Reveal is becoming its core focus. So far, some 200,000 Christians who belong to 800 churches have taken the survey. The association sells the survey to other churches at prices ranging from $375 for small churches to $2,250 for churches with more than 2,500 members. Churches that use it "will be able to do a far more effective job of serving their congregations," says Loveless, who has used Reveal to reinvent the megachurch he leads in Orlando. "In the 21st century, almost everything can be customized," he says, "so why shouldn't we offer that to people on their spiritual journeys?"

To be sure, Reveal won't be universally adopted. Even if 10,000 churches sign up, that's a small percentage of the nation's more than 300,000 churches. "A lot of churches are backing off, since they don't want to uncover the lack of effectiveness in their ministry," Loveless says. And some liberal denominations are turned off by Reveal's evangelical bent. But in a consumer-driven world in which one-size-fits-all models tend to falter, those churches who use it are more likely to flourish by satisfying and retaining members.

For Greg Hawkins, it has been a long journey from Stanford and McKinsey to his small, book-lined office overlooking Willow's suburban campus. He may not be leading a great company, but as the leader of Reveal, he is transforming many churches, as well as the lives of their members. That is far more satisfying to Hawkins than any CEO job could be. Long ago, he discovered, "I was not cut out for the commercial space, since the profit motive is not something that gets me all jazzed up." The potential to have a profound impact on American Christianity is his rich reward. ●

William C. Symonds, former correspondent for BusinessWeek*, is working to involve business in education reform at the Harvard School of Education.*

PHOTO COURTESY OF WILLOW CREEK ASSOCIATION.

Preventing the Next Market Meltdown

Three Business School finance faculty suggest policy changes to avert the next global economic crisis.

PHOTOS FROM TOP LEFT-RIGHT: JOHN GRESS/REUTERS /LANDOV, JIM WEBER/THE COMMERCIAL APPEAL/LANDOV, BRENDAN MCDERMID/REUTERS/LANDOV, MAX WHITTAKER/REUTERS/LANDOV, KAI PFAFFENBACH/REUTERS/LANDOV, BERNARDO DE NIZ/BLOOMBERG NEWS/LANDOV, ADAM BERRY/BLOOMBERG NEWS/LANDOV, REUTERS/STR/LANDOV, LUCAS JACKSON/REUTERS/LANDOV, ANTOINE ANTONIOL/BLOOMBERG NEWS/LANDOV. LUCAS JACKSON/REUTERS /LANDOV, ARKO DATTA/REUTERS/LANDOV.

Changing Bankers' Perverse Incentives

—*by* Professor Jonathan B. Berk

IN ANY FINANCIAL CRISIS, it is possible with 20/20 hindsight to identify the specific proximal causes. Armed with this knowledge, legislators are invariably tempted to outlaw specific activities. After all, if these activities had been illegal prior to the crisis, surely the crisis would have been avoided. The flaw with this seemingly plausible logic is that it ignores the incentives that affect people's behavior. A better approach is to design legislation that better aligns the incentives of bankers with the public interest.

Bankers are incentivized to make money. Inevitably, their actions expose the economy to the kind of breakdown we saw in October. With new regulations on their behavior, future crises will no doubt look different, but they will not be eliminated. The only way to avert crises is to treat banking in the same way we treat polluters: Create an environment that internalizes the negative externalities banking activity generates. That is, we should give bankers incentives so that they do not want to engage in the kind of risk taking that exposes the whole economy to a meltdown.

To address this, we need to examine the effect of leverage. When investors invest borrowed resources, a problem known to financial economists as "asset substitution" is created: If the investment goes bad, the investor can declare bankruptcy and leave the debt holders bearing the costs. Because of this downside protection, risk takers have an incentive to take on more risk than they would if there was no leverage. Most debt holders are well aware of these incentives, and ordinarily they monitor the behavior of the risk takers with policies like margin requirements. By doing so, they avoid exposing themselves to unduly large losses and lessen the likelihood of a larger financial meltdown. But when the government implicitly insures debt holders by bailing them out in bad times, the incentive to monitor borrowers is reduced. The inevitable consequence will be much larger and more costly crises in the future.

Government action might well be required to address this problem. But it would be a big mistake for legislators to focus on regulating leverage, the activity perceived to have caused the current crisis. Instead they need to concentrate on undoing the perverse incentives to take on risk that results from the perceived willingness of the government to bail out large risk takers. As matters stand right now, it is clear that once investment banks (or whatever these risk-taking entities will call themselves in the future) reach a certain size, they become too big to fail, and thus the entities that hold their liabilities know they can implicitly count on a government guarantee. Competitive debt markets will internalize the implications of this guarantee, and the result is that large investment banks will find that they can borrow at artificially low costs of capital, providing yet an additional incentive to take on more risk. Because smaller banks will not have this implicit guarantee, they will be at a competitive disadvantage in this highly competitive environment. The likely result is further consolidation of the industry and a compounding of the problem.

Jonathan B. Berk

PHOTO BY SAUL BROMBERGER/SANDRA HOOVER.

To avoid the mistakes of the past, legislators should begin by taking as given the incentives investment bankers and their lenders face. It is naive to believe that it is possible to control these incentives by passing tough new laws regulating specific activity such as the amount of leverage. Such regulation would soon become archaic as investment bankers invent new financial products that could achieve the same results without running afoul of the regulations. Instead legislators should consider reorganizing the industry to better align its incentives with the public interest.

Although a full analysis of how this can be achieved will require time and data, there are two policies that I believe are worth considering. The first, which I have alluded to already, is curbing the size of investment banks. By keeping them small, failures can be allowed in times of crisis without endangering the entire economy. Consequently, government can credibly commit to not bail out these institutions. Debt holders will then have incentive to aggressively monitor these institutions, greatly reducing the likelihood of future financial crises.

When the government insures debt holders by bailing them out in bad times, the inevitable consequence will be much larger and more costly crises in the future.

A SECOND APPROACH would be to align incentives by reconsidering the corporate structure of investment banking. Less than 10 years ago Goldman Sachs was a partnership. If Goldman was still a partnership today, its partners would be personally liable for all of Goldman's losses. That is, it would not just be their current bonuses that would be on the line, but their entire personal wealth. Faced with the potential of personal financial devastation, it is extremely unlikely that the partners would have allowed the firm to get into its current financial straits. By reorganizing investment banks into partnerships, the likelihood of another financial meltdown would be reduced far more than, for example, through restrictive regulation on their borrowing and lending activities.

One might argue that reorganizing investment banks as partnerships would reduce their incentives to take on risk and thereby hobble their ability to grease the wheels of capitalism. Such an argument might be correct: The positive externalities investment banks provide by being willing to take on risk might well outweigh the negative externality of an occasional meltdown. But it is worth pointing out that for 130 years Goldman Sachs operated as a highly successful and very profitable partnership. If those enormous profits are indicative of the value created in those years, one would be hard pressed to argue that the partnership structure handicapped Goldman's ability to take on risk or otherwise serve as a valuable middleman.

I believe it is naïve to think that we can protect ourselves from future crises by simply passing tougher regulations. The political will to make structural changes will likely evaporate once the crisis passes. So although the window of opportunity to make structural changes is short, it would be a mistake to rush to legislative action. Congress should carefully consider how to align the incentives of risk takers before taking action.

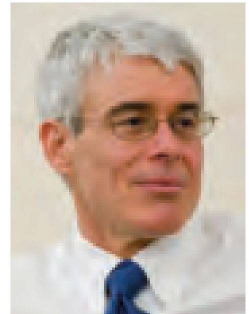
Jonathan B. Berk is the A.P. Giannini Professor of Finance.

Tame Taste for Risk, Centralize Clearing

—*by* Professor Darrell Duffie

A REDESIGN OF OUR FINANCIAL SYSTEM, driven by weaknesses revealed during the credit crisis, will be based largely on the goal of financial stability. Most of us thought we had it, but we did not. The financial sector intermediates wealth across the real sector. When the financial sector freezes up, as it did last year, consumers and producers do not get efficient levels of financing for their activities. Even worse, they understand the notion of self-fulfilling expectations: If I assume that others will cut back on consumption and production, then I should as well. This is how financial instability led us into a significant recession.

The philosophy of our market-based economic system has been that individual actors, by looking out for themselves, should be regulated mainly in order to mitigate "negative externalities" such as pollution. If I do not bear much of the costs of my air pollution, for instance, then my polluting activities should be regulated. The same applies to systemic risk in financial markets, another form of pollution. Systemic risk is the threat that financial institutions will fail catastrophically or become so crippled by a loss of capital that consumers and producers have difficulty getting financing for their activities. Governments attempt to reduce systemic risk by regulating the levels of capital that banks maintain. Those capital standards, or at least their enforcement, failed to prevent dramatic losses in the housing market from being trapped inside banks, causing this credit crisis. Several things went wrong and need to be fixed.



Darrell Duffie

PHOTO BY STEVE CASTILLO.

A large amount of wealth created by the "great moderation," a relatively stable and healthy economy over many years, found a seemingly convenient investment: securities called collateralized debt obligations (CDOs) that offered repackaged home-mortgage payments. Because there was a general and misplaced trust that home prices would not fall broadly, highly rated CDOs were believed to be quite safe, and also promised somewhat higher payments than, say, Treasury bonds. Investors flocked to CDOs, creating demand for more, encouraging additional home ownership, and further driving up home prices. Once home prices began to fall, however, this self-reinforcement went into reverse, and CDO investors lost plenty. Many large "sophisticated" financial institutions held vast quantities of mortgage-related securities and were not sufficiently capitalized to withstand the losses. The most leveraged, Bear Stearns, Lehman, AIG, and Merrill Lynch, went first. Some went out of business; some had to be rescued. Even relatively tightly regulated institutions, such as IndyMac, Washington Mutual, and Wachovia, went south. The federal mortgage agencies, Fannie Mae and Freddie Mac, were special cases, but their failures were also caused by insufficient capital. The financial crisis went global and morphed into a costly global recession.

Financial institutions were extremely unlucky, or took more risk than was healthy for the economy. Going forward, they should presumably take less risk. Regulators, currently focused on treating the wounded, will soon turn to the task of redesigning our regulatory framework. The era of large and lightly regulated investment banks is over. The only two left standing, Morgan Stanley and Goldman Sachs, have become chartered banks, now overseen by the Fed and other regulators. Bank capital standards, which had only just been overhauled under the Basel II international accord, will be reviewed for weak links. Revisions may include higher capital requirements for off-balance-sheet exposures, such as structured investment vehicles (SIVs), and for extremely large, concentrated investments, whether triple-A rated or not.

Revisions may include higher capital requirements for off-balance-sheet exposures and for extremely large, concentrated investments, whether triple-A rated or not.

The credit derivatives market covered large default losses from failing home mortgages and financial institutions. Despite dire predictions, it appears that settlement claims in this default insurance market have been processed relatively smoothly. Regulators are right to insist, though, on central clearing of credit derivatives, a process by which bilateral exposures between counterparties to a derivatives contract are converted into bilateral exposures between each of the original counterparties and a central clearing counterparty. Clearing allows positive and negative exposures to be more easily and safely offset, and reduces the potential for domino effects, by which the failure of one financial institution could cause the failure of another. Regulators should also have more systematic information on counterparty exposures, whether from credit derivatives or other forms of risk taking. (For more on the importance of clearing and disclosure, see my op-ed in the *Wall Street Journal*, Oct. 29, 2008, and my Senate testimony of July 14, 2008.)

Although weak internal management of some financial institutions appears to have played a significant role in the credit crisis, it is difficult (if not counterproductive) to regulate good management. For instance, an attempt to prescribe by regulation the types of derivatives that financial institutions may trade could stifle innovation and efficiency, and could in any case lead to a migration of trading elsewhere. I do believe, though, that a renewed focus on the regulation of systemic financial risk is inevitable and timely.

Darrell Duffie is the Dean Witter Distinguished Professor of Finance.

PHOTO BY STACY GEIKEN.

Streamline Regulators, Revise Loan Terms

—*by* Professor James C. Van Horne

DURING THE PAST 200 YEARS, there have been 16 credit crises in the United States, all marked by speculative excesses in the years immediately preceding. Following the 1907 and early 1930s crises, the Congress undertook substantial reform of the financial services industry. Again it is time for substantial regulatory/supervisory change. Recall that in the late 1970s there began a period of deregulation of financial services in the United States. Much good came in lowering costs and inconvenience, but it came with greater risk-taking and less disciplined behavior. No longer did a lender need to carry a loan on its own books, but could securitize it and capture fat front-end fees and not have to worry if the borrower paid. Self-regulation and market discipline, frequently quixotic, cannot stem the type of systemic risk we have recently experienced.

James C. Van Horne

As the ultimate safeguard to stem a financial panic, the government should have in place the apparatus that will allow it to curtail speculative excesses in advance of their triggering a financial panic. "An ounce of prevention is worth a pound of cure," if you will. A number of things are in order. Regulatory authorities dealing with the financial services industry broadly defined should be consolidated. There are too many of them, often with conflicting objectives, and competition among them—relics of the past. More specifically, I would have the Securities and Exchange Commission responsible only for disclosure of information to investors on new and existing securities, together with oversight of mutual funds. No regulation of investment banks and others, for which it has proven to be inept. The Federal Deposit Insurance Corp. should continue its present role, as should the Fed under its now expanded mandate.

I would have the SEC responsible only for disclosure of information to investors together with oversight of mutual funds.

I WOULD CONSOLIDATE all other regulatory agencies into a new agency with broad powers to regulate investment banks, insurance companies, mortgage companies, hedge funds, finance companies, thrifts, credit unions, commodity firms, brokerage firms, prime brokers, derivative and futures markets dealers, and banks not regulated by the Fed and FDIC. Any U.S. or foreign financial institution that operates in U.S. financial markets would fall under the agency's purview. For other than depository institutions, however, I would establish size thresholds for inclusion in regulatory oversight; say, above $10 billion in assets and/or $40 billion in derivative

Continued on page 32

Knowledge Network | *by Michele Chandler*

From Washout Teacher to Classroom Star

ROCK-STAR PROFESSOR. That's the tongue-in-cheek title some students have bestowed upon **Yossi Feinberg**, the associate professor of economics whose meaty research includes developing ways to discern experts from impostors, evaluating the role unawareness plays when people make decisions, and dissecting the real cause of the subprime mortgage meltdown. (Hint: It's not simply Wall Street greed.)

A past winner of the MBA Distinguished Teaching Award, the unassuming professor bearing a wry wit and steady supply of rock music to punctuate his teaching points is consistently popular with students from a wide range of backgrounds. Sit in on one of Feinberg's classes, and you'll quickly see why. He might quote Warren Buffett on derivatives, talk about the Asian financial crisis of the late 1990s, or take a few dance steps as he plays "Welcome to the Jungle" by Guns N' Roses to underscore a PowerPoint slide about how easily risky mortgage investments spun out of control.

At the start of a recent Lifelong Learning seminar about the cause of the subprime mortgage crisis that has decimated the U.S. financial markets, Feinberg instructed the roomful of seasoned Business School alums to raise a hand if their personal investments were down more than 5 percent. He then asked them to raise their other hand if their holdings were down by more than 15 percent. At that point, most attendees had both hands up.

Yossi Feinberg's passion for economics shows through in his teaching and groundbreaking research.

"And now do this," Feinberg urged, pressing his fingers to each side of his head and rubbing his temples, as if trying to soothe a massive headache. Laughter erupted. Feinberg grinned.

With his audience firmly hooked, Feinberg went on to tell the group that he'd examined the subprime crisis for more than a year, initially so he could include it in his *Economics of Organization* course for MBAs. "It's like a great movie about a hideous crime that, when different people describe the crime, it is a completely different story every time," Feinberg explained about his fascination with the topic. "It had all the features—of uncertainty, of incentives, of how people react to the wrong incentives, and of how controls deteriorate."

"It's sort of depressing," he admitted, adding, "At least there is a grain of hope at the end, which I hope will be the bottom line."

Using humor is just one approach Feinberg employs to draw his audience into his complicated economic topics, whether the people in the seats are MBA students, PHD candidates, or, as was the case last September, Business School alums like **Tiffany Griego,** MBA '04.

While attending Stanford, Griego was in Feinberg's *Managerial Economics* class; now she's associate director of real estate for Stanford Real Estate. Several weeks after the subprime seminar, Griego was still sharing Feinberg's insights about the crisis and resulting bailouts with her co-workers, family, and friends. "He has a way of distilling his points down, and they are rooted in his tremendous research and thoughtfulness," Griego said about why she jumped at the chance to attend the event. Sitting in the class also transported Griego back to her days as an MBA student and led her to remember that "Yossi has that knack. He has a way of communicating that is not dry. He brought tangibility to the problem without sacrificing an intellectual analysis, and that's what I appreciated about that evening."

What did Feinberg say that struck Griego the most? Between financially risky new investment products, homeowners' willingness to accept bigger mortgages than they could handle, and top executives who didn't raise questions about fundamentals when their business was going gangbusters, "there were just too many players and too little accountability at each level," Griego says. "For me, that was one big takeaway."

But Feinberg also cautioned the group against blaming the meltdown solely on Wall Street greed. After all, he asked, what CEO would acknowledge to the board of directors that the company was making money hand over fist but should stop? "That CEO would be fired," Griego said, adding that Feinberg told them rather than dismiss the industry's actions as avarice, "we need to be aware that human nature drives us to succeed and, because of a lack of accountability, that led things to scale out of hand."

The subprime upheaval isn't Feinberg's only area of expertise. He teaches MBA courses on *Strategic Decision Making* and *Economics of Organization,* as well as PHD courses. He is an ardent disciple of game theory, an arm of applied mathematics developed in the 1920s that seeks to explain conflict and cooperation using mathematical models; it's now standard fare in most MBA programs. "Game theory is the technical way of describing economic interaction, but economics is the way of thinking about problems," he explained. "What people want, what people will do based on what they want, and what information they have."

Individuals frequently make decisions without all the answers and often settle on choices even if they don't fully understand what the scope of the problem might be, Feinberg says. So, one of his main areas of research centers on how unawareness can affect bargaining.

As an example of how game theory plays out in real life, he presented the case of a shopper for a car who is asked by the salesperson whether he has email. If the customer is unaware that cars are sold online and he could use the internet to determine actual new car prices, that is a strategic lack of information the salesperson could exploit.

Explained Feinberg: "We can create a game that describes the process of bargaining and takes into account that the messages you send will actually change the game."

The professor's research also includes determining whether a person is a true expert, or simply someone who's craftily figured out how to manipulate test results to make it appear that he's in the know when actually he's not. Along with Eddie Dekel-Tabak, an economist at

PHOTOS BY STEVE GLADFELTER.

Northwestern University, Feinberg is trying to develop tests that an authentic expert would nearly always pass and a pretender would nearly always fail and that could be applied to everything from financial to weather forecasting.

Feinberg grew up in a working-class family in Jerusalem with a father who held down two jobs and a mother who worked full time as a bank clerical employee. The family didn't have a car until young Yossi was 9 years old.

His father, who did clerical work at a construction firm, sometimes brought home the company's receivables for his 7-year-old math whiz son to calculate. "I'd sit down and would have to add up very long lists of numbers on balance sheets. I think I got paid for it," Feinberg said.

Then, in high school, an exacting teacher further inspired his love of mathematics. On one of the teacher's math tests, a score of 100 was perfect and usually the highest score in the class was 40, but pupils willing to go the extra mile could rack up 300 points. That mathematical treasure hunt piqued the interest of students, Feinberg said, because "there were secrets there that we all wanted to figure out, and that's what made it challenging."

Feinberg remembers his math teacher as being a little detached, not very communicative, and definitely not the buddy type. Still, the professor recalled, "He just loved the topic and when you love what you are doing, then it shows."

After five years in the Israeli Army, Feinberg went on to receive his bachelor's, master's, and doctoral degrees in mathematics, all from Hebrew University of Jerusalem. He received his PHD in 1997 under the supervision of Robert Aumann, a game theorist who won the Nobel Prize in economics in 2005. In the late 1990s, Feinberg's thesis examined how differing prior beliefs of decision makers can spill over into disagreement about current events.

Although he excelled in math—and also was intrigued by physics, computer science, and philosophy—Feinberg chose to specialize in economics. "I enjoyed math, but I didn't want the abstract detachment," he explained. "The idea that you can model people's behavior and reasoning—that captured me. You can take mathematical equations and apply them to what people do. To me, that was the best of both worlds, something both practical and rigorous."

He added: "A lot of people focus on how to share the pie and who gets a bigger piece. Sharing the pie is usually a socially and politically loaded question. But usually no one objects to just having a bigger pie. And, in many cases, it's easy to do, once you have the economic tools."

Feinberg came to the United States with his wife, biochemist Hadar Feinberg, and took a job as an assistant professor of economics at Kellogg Graduate School of Management in 1996 before joining Stanford's Business School faculty in 1998. During his first year at Stanford, he was a self-proclaimed washout as a teacher. One student's evaluation of his class read, "You are the worst teacher I've ever had," Feinberg recalled with a wince, admitting that he did sometimes approach teaching as a chore. It took remembering lessons learned from his old PHD advisor to turn things around. "I realized that just like Aumann taught me, you need to figure out what the real problem is and try to solve it, not try to solve the most convenient problem."

Feinberg determined he had to improve his classroom delivery before his students would ever embrace his economic insights. So he made refinements, adding humor and energy to the curriculum. And music, including everything from "You Never Give Me Your Money" by the Beatles to "Sugar, We're Going Down" by pop punk band Fall Out Boy.

Music from Swedish pop group ABBA rang out frequently during one of Feinberg's classes a few years ago. On the shelf beside his office computer is a poster featuring members of ABBA on the front and handwritten kudos from his MBA students on the back. "Your energy made economics great," reads one entry. "Thanks for the most inspirational econ class ever," another says.

"I can ask them to do anything now," Feinberg said of his students. "They work hard. They invest many hours in trying to figure out difficult, technical things because at the end is the prize of having insight, having a powerful tool that wasn't there before." ●

>Faculty Research

Open Stock Markets Stimulate Developing-Country Wages

WHEN A DEVELOPING COUNTRY opens its stock market to foreign capital, the resulting economic effect usually helps more than just big business. Manufacturing workers find their salaries rise rapidly, while the nation realizes an even more rapid growth in productivity, according to a recent study of 18 developing nations, says Business School Professor **Peter Henry**.

The typical manufacturing workers saw their real wages go up seven times faster than they would have otherwise during the first three years after the inflow of foreign capital. At the same time, productivity grew even faster than real wages, said Henry, who is the Konosuke Matsushita Professor of International Economics and who has advised President Obama on international finance. "Unit labor costs fall, so firms are actually becoming more profitable even as workers experience an unprecedented increase in wages."

In many developed countries, companies that gain productivity may cut back their workforces. Technology might help one worker do what two did before, but the already-large markets can't expand enough to keep both of the workers. A cutback is one way to improve the bottom line. But, Henry said, those pains didn't occur in the developing nations he studied because greater manufacturing efficiency often led to an increased demand for the items manufactured. "The productivity gains do not lead to a fall in the number of workers employed."

The study, published in March 2008 as Working Paper No. 13880 of the National Bureau of Economic Research, examines emerging economies worldwide that began opening their markets between 1986 and 1995. Henry and coauthor **Diego Sasson**, who recently earned his doctorate in economics from Stanford, found that the average worker's real compensation increased by about US$752, more than a 25 percent rise compared with their pre-liberalization pay.

Henry said the first impact of opening financial markets operates through the capital markets rather than wages. Manufacturers often find it easier to get financing and might have a wider range of potential buyers and investors. "Opening up the stock market reduces the cost of capital, so some things that were not profitable to invest in before liberalization are profitable now."

Companies that build more plants or expand their horizons need more workers. Colombia is a typical example. "They opened up their equity markets pretty substantially," he said. In 1991, Colombia opened its stock market to foreign investors. The next year, real wages rose 5.9 percent. The year after that, they jumped 11.1 percent.

In their study, Henry and Sasson used a control group of countries not undergoing liberalization to ensure that the wage increases they observed were not driven by worldwide factors that had nothing to do with the liberalization in each country. They found that the wage gains of the liberalizing countries were not shared by the control group.

The average growth rate of labor productivity, for example, was 10.1 percentage points more during liberalization and the two years afterward than in non-liberalization years. Countries in the control group did not have a comparable productivity increase.

The changes carry with them a lasting impact on the workers' standard of living. In 15 of the 18 countries studied, the median growth rate of real wages in the post-liberalization period is more than the pre-liberalization median.

One limit to the study, Henry said, is that it applies only to the manufacturing sector. "We don't know what happens to the workers in agriculture or the service sector."

Still, he said, it's clear that the economic impact of liberalization has a marked impact for a significant fraction of a developing country's workforce. "Even if wages are not going up in other sectors," Henry said, "the average overall wage of workers is going up."

Henry said some economists and politicians have argued that developing countries are making a mistake by opening their markets. "I think this is one more piece of evidence that suggests that the anti-liberalization argument is probably not right," he said.

The bottom line? "Policy matters," Henry said. "A lot."

Samples Whet Appetites

EVERY GROCERY STORE MANAGER knows that a hungry shopper is likely to buy more. On the other side are product marketers who would love to stuff customers with samples to obtain converts to their brands. Retailers worry: Could food sampling sate hunger and, with it, the desire to fill the grocery basket?

Baba Shiv, professor of marketing at the Business School, has found evidence that product sampling can do what a good French appetizer is intended to do: whet the appetite for more—even in someone who was not hungry to begin with. Not only can sampling stimulate the desire for more of the same, it can also spark desire for *anything* pleasurable, be it foodstuffs or seemingly unrelated things, such as exotic vacations. Such a phenomenon is likely, then, to stimulate buying.

In four studies reported in the June 2008 issue of the *Journal of Marketing Research*, Shiv and **Monica Wadhwa**, a doctoral candidate at the Business School, and Stephen Nowlis of Arizona State University gave one group of students samples of a sweet drink or chocolate, and another group nothing, before having them watch a film in a room with available food and drink. Those who had been cued with the samples consistently ate and drank more during the film than those who hadn't. In one study those offered a sweet drink later indicated a stronger desire for consumer goods and experiences, especially pleasure-oriented items like chocolate cake and a vacation in Bora Bora.

In a final study, the researchers found that participants who sniffed a good-smelling substance (scented spray) drank more soda than those who sniffed a neutral-smelling substance (water)—and far more than those who sniffed a bad-smelling compound (ammonia).

Overall the results suggest stores can't go wrong by making samples available. An ounce of mango salsa may turn out to be worth a pound of caviar.

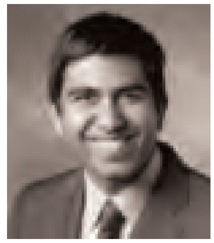
Voting by Mail May Change Close Election Outcomes

ABSENTEE BALLOTS HAVE MADE VOTING easier for millions of Americans, but the process may have unintended effects on election outcomes, say Professor **Neil Malhotra** and **Marc Meredith**, PHD '08.

In their study of the 2008 California presidential primary, Democratic hopeful John Edwards and Republican contenders Rudy Giuliani and Fred Thompson got a significantly higher percentage of votes by mail than they did at polling places. Malhotra, a GSB assistant professor, and Meredith, a visiting lecturer at MIT, estimate that more than 5 percent of Californians wasted their votes in the primary by choosing candidates such as these three who eventually dropped out.

Given that mail-ins now comprise more than 30 percent of ballots in states that allow early voting, the issue of how voting by mail may affect election outcomes has become more important, they write in Stanford Research Paper No. 2002. Less informed mail-in votes could tip the scales in close elections. In the 2004 presidential election, for example, many voters in Ohio and Iowa sent in their ballots before the first debate between George W. Bush and John Kerry had taken place. Although Kerry was considered to have won the debate, Bush won those states but only by about 1 percent. "It could well be that if people who voted by mail had waited until after the debates, they would have voted differently," Malhotra says.

In the Nov. 4, 2008, general election, voting by mail may have influenced the outcome of ballot initiatives. "A lot of the educating and campaigning about propositions happens at the very end," Malhotra says. "Someone who voted in early October may have voted differently if he'd had more information at his disposal."


Neil Malhotra

To level the playing field between mail-in and drop-in voters, the researchers suggest the government distribute ballots later, not disqualify slightly late ballots, and consider seriously whether voting by mail should ever be made mandatory—as it has been in Oregon. "What we've brought to light is a vote-by-mail 'con' that no one has considered before," says Malhotra.

ILLUSTRATION BY JOHN CUNEO.

Bad Times Are Bad Signs for Underperforming CEOs

WHEN A COMPANY DOES BADLY, no manager likes to be blamed for things that were really outside his control—like a general downturn in the economy. That goes especially for chief executives. But do boards really take external factors into account when giving CEOs the ax?

A new study finds that more CEOs are fired when their industry or the overall market is doing badly. But, say the scholars, it is not just a case of boards looking for scapegoats during harder times. The CEOs let go under such conditions tend to be underperformers anyway.

Looking at more than 1,600 CEO turnovers in the United States from 1993 to 2001, **Dirk Jenter**, assistant professor of finance at the Business School, and Fadi Kanaan of MIT first found that managers tended to be fired based on the performance of their firm regardless of the larger economic picture.

"When stock prices are up, managers are less likely to be fired; when stock prices are down, they are more likely to be fired," Jenter said. "Our first results suggested that it does not matter whether a low stock price is driven by firm performance alone or broader market factors."

Specifically, the researchers found that after one to two years of bad industry performance, the probability of a CEO being fired was more than 50 percent higher than after good industry performance. The pattern shows up everywhere, whether companies are large or small, whether CEOs have long tenures or short, or whether corporate boards are governed by company insiders or outsiders.

However, when the investigators looked at the data more carefully, they found that it was CEOs heading companies that historically had lower stock returns than their peer companies who were most likely to be fired. "So it's not the case that boards just willy-nilly fire CEOs when the industry or the economy is doing badly," Jenter said.

Extrapolating from his results, Jenter conjectured that corporate boards may be using bad times as an opportunity to get rid of underperforming CEOs. "This is what I find when talking to members of boards personally," he said. "They report that it's really difficult to fire a CEO unless the company's stock valuation is down."

Boards, then, may want to consider whether they are asking enough tough questions about their CEOs in good economic times. "A rising tide may lift all boats, but the company may not be benchmarking itself well during such periods," he said. "If a firm's stock is up 5 percent while several competitors are up 15 percent, then a board may want to think about rocking that boat."

CEOs who underperform in good times, the study warns, should be aware that they will be scrutinized more closely when things go south. "Such CEOs need to prepare better for the next recession," Jenter advises.

Charities Seek Time, Money Follows

ASKING WOULD-BE DONORS for their time, not their money, is a better way for charities to increase donations, says Business School marketing Professor **Jennifer Aaker.** In the October 2008 *Journal of Consumer Research*, she and Wendy Liu of UCLA say their experiments also suggest that asking potential donors to volunteer first can positively shift their willingness to give both time *and* money.

The reason, according to Aaker, the General Atlantic Professor of Marketing, is that questions regarding time and money stimulate different mindsets. When people are solicited for their time, they automatically think in terms of emotional meaning and fulfillment: Will volunteering for this charity make me happy? When tapped for money, they start thinking about the far more practical, boring, and sometimes painful matter of "economic utility": Will making a donation make a dent in my wallet?

"The 'time first' approach therefore makes the emotional significance of what you're asking stand out, which stimulates positive feelings and an increased belief that volunteering would be linked to personal happiness. That emotional mindset ultimately leads to greater giving," she says.

For example, in one of their experiments, individuals who were asked first about volunteering their time not only gave the most money to a nonprofit organization that serves children with cancer but also donated the most time. The result suggests that what motivates people to give dollars when they are asked first for their time is not simply guilt; that is, they are not donating more generously as a way of "buying out" of having to give up precious hours. "If guilt had been operating, then those who were asked for time first may have given more money, but they would have given less time than any of the other groups. In fact, the reverse was true," Aaker says.

In short, the two suggest that asking for people's time connects them with the deep mission of the organization.

Want More?

More research details available online at *GSBresearch.stanford.edu*

>Faculty News

Faculty, Alumni Receive Praise for Volunteerism

THE STANFORD BUSINESS SCHOOL Alumni Association chose to honor **George Foster**, the Paul L. and Phyllis Wattis Professor of Management, with the 2008 Robert K. Jaedicke Silver Apple Award for service to alumni. Foster is also director of the School's Executive Program for Growing Companies.

During October's Alumni Weekend, the association also honored four alumni for School service: **Duane Wadsworth**, MBA '63; **Jim Crownover**, MBA '68; **Tom Friel**, MBA '73; and **Debbie Zoullas**, MBA '78.

Foster has demonstrated a longstanding interest in alumni and alumni programs. He has been a keynote speaker during Alumni Weekend and during spring reunions, and his research on the business of sports has been extremely popular with alumni all over the world, said **Lynne Reynolds**, director of Alumni Relations. Foster has spoken to GSB alumni chapters in Sydney and Melbourne in Australia; the San Francisco Bay Area, Seattle, New York, and Boston in the United States; and in London, Paris, and Switzerland in Europe, she said. He also maintains close connections with his students after they graduate.

At the awards ceremony, Dean **Robert Joss** also introduced the alumni recipients of the John Gardner Volunteer Leadership Awards, named after the late faculty member who was a strong advocate for volunteer service. Begun in 2002, the Gardner Awards are intended to honor alumni 20-plus-years out who have a history of strong volunteer commitment that has had significant impact on the School.

Wadsworth has been the MBA '63 class secretary for nine years and a consistent reunion volunteer or chairman. He has been involved in the School's personal solicitation program and volunteered as a judge in the Executive Challenge program of the Center for Leadership Development and Research. He served a five-year term on the Stanford Business School Alumni Association Board of Directors and is currently its president, which means he also serves on the GSB Advisory Council.

Crownover volunteered for his first phone appeal in Houston shortly after his graduation and chaired the 40th reunion campaign for his class, which set both dollar and participation records for its third reunion in a row. In between, he served in numerous fundraising roles, as an MBA Admissions volunteer, as an Executive Challenge judge, and as a two-term member of the GSB Advisory Council.

Friel chaired his 35th reunion fundraising committee and has provided insight and leadership as a member of the Advisory Council, where he advanced the School's commitment to improving faculty recruitment and retention by helping to form an ad hoc committee and sharing his insights on the parallels between faculty recruiting and corporate recruiting. He also has volunteered on behalf of the Center for Leadership Development and Research, Student Affairs, and the Global Management Program.

Zoullas has been chair of the Stanford Business School Trust after serving on the board for six years. She played a leadership role in her 15th, 20th, and 25th reunions and was on the volunteer team for her 30th. She also has been active in the GSB Women's Initiative and recently completed her second term on the Advisory Council.

Aspen Institute Honors Baron

The Aspen Institute Center for Business Education presented its 2008 Lifetime Achievement Award to Business School Professor Emeritus **David Baron** at a November reception at Ernst & Young's corporate headquarters in New York City.

The honor is one of the institute's Faculty Pioneer Awards, intended to celebrate MBA faculty who have demonstrated leadership and risk-taking in integrating social and environmental issues into academic research, educational programs, and business practice.

In a press release, the institute said Baron was honored as "an innovator in the area of business and its social, political, and legal environment. He created the field of non-market strategy, an approach that

Campaign Economists

"Those of you coming to see red meat will be disappointed," Stanford Business School Professor Peter Henry, left, told an audience filling the Bechtel Conference Center in late September to hear economic advisors to presidential candidates John McCain and Barack Obama. Henry, the Konosuke Matsushita Professor of International Economics and associate director of the Center for Global Business and the Economy, represented Obama, and McCain was represented by Kevin Hassett, right, of American Enterprise Institute. Both advocated a bipartisan approach to the economic crisis and congressional oversight of bailout plans for Wall Street. Stanford economist John Shoven, center, moderated.

PHOTO BY STEVE CASTILLO.

integrates traditional strategy with political economy, reputation management, ethics, and corporate social responsibility. His most recent research includes path-breaking work on social entrepreneurship and moral motivations for firms and managers."

Baron is the David S. and Ann M. Barlow Professor of Political Economy and Strategy, Emeritus. He has taught in the MBA, PHD, and Executive Education programs, and received the MBA teaching award at Kellogg and the PHD teaching award at the GSB. He has authored more than 100 articles and 3 books, one of which is in its 5th edition.

The Aspen Institute Center for Business Education offers business educators targeted resources to incorporate issues of social and environmental stewardship.

Lee's Logistic Leadership Recognized

The Rotterdam School of Management at Erasmus University in the Netherlands awarded an honorary doctorate to **Hau Lee**, the Thoma Professor of Operations, Information, and Technology and director of the Stanford Global Supply Chain Management Forum and the Strategies and Leadership in Supply Chains Executive Program.

Calling Lee "a world leader in supply chain management," the school said he is also one of the 50 most-cited authors in the areas of business and economic sciences. The Rotterdam School hosted a symposium in November for members of the logistics industry in conjunction with granting Lee the degree and said his research will be used by it and others participating in the European Commission's Integrity Project, which aims to investigate and improve transparency in global supply chains between the Far East and Europe.

In 2004, Lee's 1997 paper, coauthored with **Seungjin Whang** and Venkata Padmanabhan, "Information Distortion in a Supply Chain: The Bullwhip Effect," was voted one of the 10 most influential articles published in the history of the journal *Management Science*.

Wein Raises Bar for Security Analysis

Research by a Stanford Business School professor analyzing U.S. security problems has set a high standard for analyzing public issues generally and communicating results to the public, according to the Institute for Operations Research and the Management Sciences (INFORMS), which presented its 2008 Frederick W. Lanchester Prize to **Lawrence M. Wein**, the Paul E. Holden Professor of Management Science.

Wein was cited for a series of papers, including "The Last Line of Defense: Designing Radiation Detection-Interdiction Systems to Protect Cities from a Nuclear Attack," which the organization considered the best English-language research published in three years in the fields of operations research and management science. Wein's work "opened up an important new area—homeland security," for the application of operations research, the organization said, by analyzing risks associated with four main national threats—border security, nuclear weapons at ports and large cities, anthrax- and smallpox-based attacks, and food supply attacks—and providing policy recommendations for dealing with these risks.

"This research developed extremely creative, original, and detailed models for evaluating alternative methods of protection," the INFORMS citation said. "The analysis used an impressive range of methods including optimization, game theory, stochastic models, statistics, and differential equations."

In November 2007, Wein received the organization's President's Award for lifetime achievement. ●

>Faculty Publications

ACCOUNTING

Global Financial Reporting: Implications for U.S. Academics
Mary E. Barth
Accounting Review (Vol. 83, No. 5), SEPTEMBER 2008

ECONOMICS

Cross-Ownership, Returns, and Voting in Mergers
Gregor Matvos and Michael Ostrovsky
Journal of Financial Economics (Vol. 89, No. 3), SEPTEMBER 2008

What Changes Energy Consumption? Prices and Public Pressures
Peter C. Reiss and Matthew W. White
RAND Journal of Economics (Vol. 39, No. 3), FALL 2008

Tenure and Output
Kathryn Shaw and Edward P. Lazear
Labour Economics (Vol. 15, No. 4), AUGUST 2008

Supply Function Equilibrium in a Constrained Transmission System
Robert Wilson
Operations Research (Vol. 56, No. 2), MARCH/APRIL 2008

FINANCE

Optimal Decentralized Investment Management
Jules H. van Binsbergen, Michael W. Brandt, and Ralph S.J. Koijen
Journal of Finance (Vol. 63, No. 4), AUGUST 2008

Disasters and the Welfare Cost of Uncertainty
Ian W.R. Martin
American Economic Review (Vol. 98, No. 2), MAY 2008

Choosing Outcomes Versus Choosing Products: Consumer-Focused Retirement Investment Advice
Daniel G. Goldstein, Eric J. Johnson, and William F. Sharpe
Journal of Consumer Research (Vol. 35, No. 3), OCTOBER 2008

Default and Recovery Implicit in the Term Structure of Sovereign Credit Default Swaps Spreads
Jun Pan and Kenneth J. Singleton
Journal of Finance (Vol. 63, No. 5), OCTOBER 2008

Structural Models of Credit Risk Are Useful: Evidence from Hedge Ratios on Corporate Bonds
Stephen M. Schaefer and Ilya A. Strebulaev
Journal of Financial Economics (Vol. 90, No. 1), OCTOBER 2008

MARKETING

Technological Capabilities and Firm Performance: The Case of Small Manufacturing Firms in Japan
Takehiko Isobe, Shige Makino, and David B. Montgomery
Asia Pacific Journal of Management (Vol. 25, No. 3), SEPTEMBER 2008

Will I Like a "Medium" Pillow? Another Look at Constructed and Inherent Preferences
Itamar Simonson
Journal of Consumer Psychology (Vol. 18, No. 3), JULY 2008

Time Will Tell: The Distant Appeal of Promotion and Imminent Appeal of Prevention
Cassie Mogilner, Jennifer Aaker, and Ginger Pennington
Journal of Consumer Research (Vol. 34, No. 5), FEBRUARY 2008

A New Look at the Consequences of Attitude Certainty: The Amplification Hypothesis
Joshua J. Clarkson, Zakary L. Tormala, and Derek D. Rucker
Journal of Personality & Social Psychology (Vol. 95, No. 4), OCTOBER 2008

OPERATIONS

Cost-Effectiveness of Frequent In-Center Hemodialysis
Chris P. Lee, Stefanos A. Zenios, and Glenn M. Chertow
Journal of the American Society of Nephrology (Vol. 19, No. 9), SEPTEMBER 2008

ORGANIZATIONAL BEHAVIOR

Indirect Social Influence
Jerker Denrell
Science (Vol. 321, No. 4), JULY 2008

The Two Faces of Dominance: The Differential Effect of Ingroup Superiority and Outgroup Inferiority on Dominant-Group Identity and Group Esteem
Rosalind M. Chow, Brian S. Lowery, and Eric D. Knowles
Journal of Experimental Social Psychology (Vol. 44, No. 4), JULY 2008

Relational Accommodation in Negotiation: Effects of Egalitarianism and Gender on Economic Efficiency and Relational Capital
Jared R. Curhan, Margaret A. Neale, Lee Ross, and Jesse Rosencranz-Engelmann
Organizational Behavior & Human Decision Processes (Vol. 107, No. 2), NOVEMBER 2008

Ambidexterity as a Dynamic Capability: Resolving the Innovator's Dilemma
Charles A. O'Reilly and Michael Tushman
Research in Organizational Behavior (Vol. 28), JULY 2008

Market Rebels: How Activists Make or Break Radical Innovation
Hayagreeva Rao
Princeton University Press, FEBRUARY 2009

The Ergonomics of Innovation
Hayagreeva Rao and Robert Sutton
McKinsey Quarterly (No. 4), 2008

POLITICAL ECONOMY

Lethal Incompetence: Voters, Officials, and Systems
Jonathan J. Bendor and John G. Bullock
Critical Review (Vol. 20, Nos. 1–2), 2008

Backward Intergenerational Goods and Endogenous Fertility
John W. Hatfield
Journal of Public Economic Theory (Vol. 10, No. 5), OCTOBER 2008

Newsmakers

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

The timing of the recent credit crisis means a changed career landscape for MBA students. From left are Aldo King, Ben Sloop, Roshni Jain, Kate Jackson, Lindsey Maynard, Megan Stricker, Michael Armstrong, and Garrett Miller.

PHOTO BY MARTIN KLIMEK.

Markets Mess Up MBA Career Plans

Students banking on Wall Street careers upon graduation are finding an evaporated job market. The collapse is having a twofold effect on business schools: Applicants are rising from among those looking to weather the crisis, while students ready to graduate need to rethink their original career strategy.

"What used to be a stable thing, going into banking, now feels like going to work for a startup," **Lindsey S. Maynard**, class of '09, told *USA Today*. She still has a job with Morgan Stanley's Houston office after graduation in June.

Classmate **Ben Sloop** had considered a career with a top New York firm but, after the market shakeup and a job at a consumer assistance agency last summer, he now is setting his sights on a smaller organization where he can be a part of something he believes in. That sentiment echoed with others interviewed, although the motivation to make a profit hasn't disappeared.

Hit the Road, Bill

The idea for his book started with a 1933 road trip **Bill Carson**, MBA '56, and his parents took from Missouri to New Mexico. They stuck as close as possible to the Santa Fe Trail, a route his great-great-grandfather, who went on to become the New Mexico territory's second governor, followed 81 years earlier.

The 1933 trip, as well as attending summer camp at the prestigious Los Alamos Ranch School from 1939 to 1942, gave Carson the details he needed to write *Peter Becomes a Trail Man*, a book for young adult readers.

But his commitment to today's youth doesn't end at his book. In 1997, he and his wife, Georgia, founded a nonprofit that introduces local children to literature. He's also chairman of the Santa Fe Children and Youth Commission, he told the *New Mexican*.

Need Help Lifting That Derrick?

Oil rig workers seem like tough-skinned employees who are filled with bravado and would never ask for help. That exact behavior can get them into unproductive, and unsafe, situations, according to research by Stanford education Associate Professor **Debra Meyerson**, PHD '89, and Robin Ely. When workers were asked to focus on company goals like safety and admission of errors, rather than an individual's strength and prowess, productivity increased substantially and accident rates decreased 84 percent, reports *Canadian Business*.

Tax Debate Never Ends

Taxes on the wealthy will need to be raised in order to shore up the system, **Mark Wolfson**, a Business School consulting professor of accounting and finance, told attendees of an October reunion panel on the economic crisis. "I have no doubt that will occur no matter who is the next president," he said.

The *Palo Alto Daily* reported that **John Taylor**, Stanford economics professor and member of John McCain's economic policy team, replied, "That's backward. Who would increase taxes at a time like this?"

Bay Area Embraces Double Bottom Line

The San Francisco Bay Area is the closest thing the United States has to a hub for double-bottom-line investment funds, which are backers of companies looking to make a socially conscious product and a profit at the same time.

Josh Becker, JD/MBA '98, co-founder of New Cycle Capital in Menlo Park, told *Venture Capital Journal*, "We can see how the social aspects of these companies are becoming a core competitive advantage." He referenced businesses providing health care, financial services, and other essentials to underserved populations as particularly attractive.

In the past investors have been scared away because they think of philanthropy when they hear social investment. But the mentality is changing as the social venture models mature.

Merger Maven

Helen Weir, MBA '90, has a lot on her plate. The head of retail banking at Lloyds TSB is grappling with her employer's acquisition of the Halifax Bank of Scotland.

The obvious strategy is not to bury the two banks under one name but to allow possibilities for more than one brand, she said in the *London Times.* "Sometimes, with closing branches, the savings you make are outweighed by customer attrition."

Mergers are nothing new for Weir, who while finance director for the U.K. hardware store chain Kingfisher oversaw the takeover of the French Castorama chain.

Steyer, Taylor Fund Energy Research

A GSB alumni husband-and-wife team has given Stanford $40 million to create the TomKat Center for Sustainable Energy. It is part of a new Precourt Institute for Energy that expands faculty and graduate student support for energy research. The gift is from Stanford trustee **Thomas Steyer**, MBA '83, founder of Farallon Capital Management, and **Kat Taylor**, JD/MBA '85, who heads the couple's TomKat Foundation, which also funds One California Bank, an Oakland, Calif. bank serving a neighborhood other banks avoid, according to a recent *Fortune* profile of Steyer.

The global financial meltdown profoundly shaped Steyer's views on the need for sustainable energy, Taylor said. "He does not believe we will transform our economy and also address serious foreign policy and national security issues, as well as obvious environmental concerns, unless we address energy." Finding a new paradigm involves changing energy policy while avoiding the political distortion created by campaign contributions, she said.

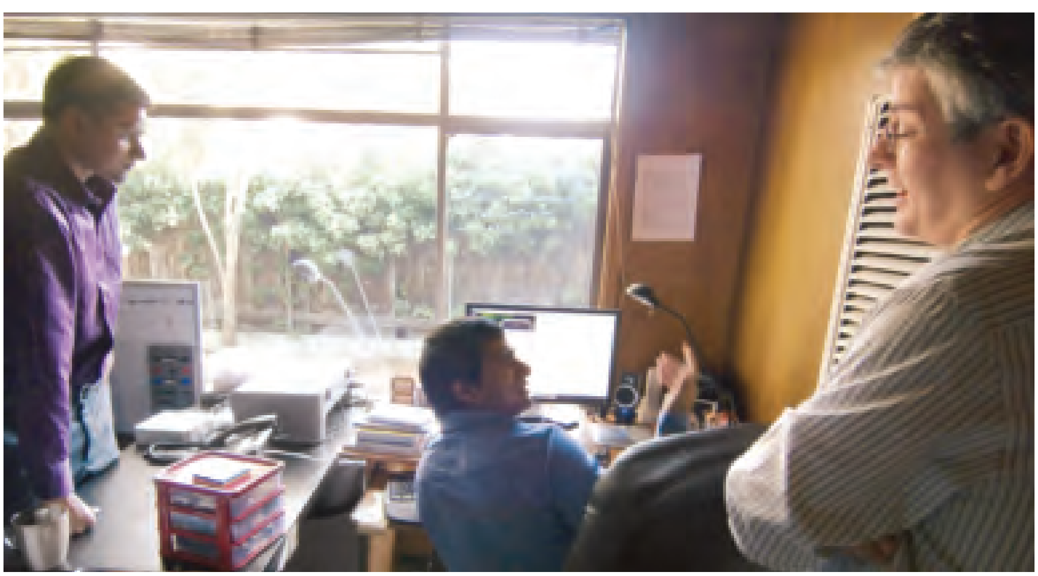
Steyer added: "We believe that Stanford is uniquely positioned to change our nation's attitudes and capability as it concerns energy. What our university did for the information revolution, it must now do for the energy revolution."

The financial crisis prompted Thomas Steyer, MBA '83, of Farallon Capital Management, to support more research on sustainable energy at Stanford.

Online Matchmaking for Start-Up Firms

The internet is a great way to find a lost friend, a future love interest, or a job. It also is a good place to look for investors for your business idea or somebody willing to give you a loan.

Through YouNoodle, an online bulletin board for potential start-ups, **Manoj Duggirala**, a Stanford engineering master's student who graduated in 2008, met up with **Jan Leeman**, MBA '95. After corresponding for several months, Leeman invested $70,000 in Duggirala's GiveandTake, a yet to be opened online shopping firm. Although Leeman doesn't live too far from the campus, "it's difficult to get access to what the Stanford students are doing," he told the *New York Times*. YouNoodle provided a forum for him to vet Duggirala and his ideas and eventually to invest.



A website connected Stanford engineering students Manoj Duggirala, left, and Priyank Chodisetti, center, with investor Jan Leeman, MBA '95.

TOP PHOTO: MICHAEL SEXTON. BOTTOM: JESSICA BRANDI LIFLAND/REDUX.

Brander of Beer Legends

The battle of the beers took a new twist when Coors and Miller merged last year. On the frontlines for the new MillerCoors is chief marketing officer **Andy England**, MBA '94, who held that post for Coors before the two popular brands joined forces. His past wins with Coors, according to *Brandweek*, include "cold-activated bottles" and the "vented wide-mouth can."

Now he's dusted off the old "great taste; less filling" campaign to bolster Miller Lite's market presence and has had to ax Coors' "malternative" Zima malt beverage.

Cooking with Joe

How can you quickly make mole chicken enchiladas with pecans? By buying *Cooking with All Things Trader Joe's*. Two fans of specialty retail grocer Trader Joe's, (founded by **Joe Coulombe**, MBA '54) published a cookbook with menus consisting of only the store's products.

"I used to cook from scratch but as my career took off and I had kids, cooking time was squeezed out," coauthor **Wona Miniati**, MBA '98, told the *Wall Street Journal*. She and Deana Gunn self-published the book and sold out of the initial press run of 20,000. With large orders from Borders book stores, the two printed another 50,000.

Trader Joe's doesn't carry the title, but it also hasn't asked the authors to rename the book.

New China Hand

U.S. business opportunities for bridging inventors and investors were tapped out, thought **Barrett Comiskey**, MBA '04, so he booked passage to Shanghai. It wasn't like his efforts had failed in the states. In his pre-Stanford days he cofounded E Ink, which produced displays later used in ultra-thin book readers like Amazon's Kindle. He told *Esquire* he's now managing partner of Nicobar Group there, which joins U.S. companies with Asian manufacturers. ●

Continued from page 23

positions (notional amount) for a single institution or collective institutions under interlocking ownership. Supervisory and regulatory oversight would embrace asset quality, leverage, and counterparty risk, as well as overall risk with full power of the agency to curtail overly risky activities. The governing board should be independent and appointed by the Congress and the president for, say, 10-year terms on a staggered basis.

As part of the change, a new department should be established to facilitate workouts for mortgages and other loans. Presently many loans have been securitized with legal impediments to workouts. Efficiently managed workouts benefit both the borrower, in reducing payment outlays, and the lender, in not having to charge off as much of the loan. While many other worthwhile changes are possible, I will mention three. 1) Restore the uptick rule, where short sales can be consummated only upon a rise in security price. This is a better remedy than periodically freezing short sales. 2) Require loan originators to retain a small portion, say 5 to 7 percent, of loans that are securitized. This creates a discipline that otherwise doesn't occur. 3) Have credit-rating agencies paid by the government from fees collected by the government from security issuers. This will result in more objectivity and align the incentives of the rating agencies with investors.

FINALLY, THE METHOD by which the capital is socially allocated is a matter of concern. Fannie Mae and Freddie Mac were actively pressured by the Congress and the Department of Housing and Urban Development to promote housing ownership through low/no-down payment and deferred-interest types of mortgages. Seemingly there is no cost, as long as the government's implicit guarantee of these agencies does not occur. When it did in 2008, the cost is huge. A more efficient method for socially allocating capital is for the government to pay an interest-rate and/or principal subsidy to the lender or to the borrower for certain types of socially desirable loans. In this manner, the lender receives the market clearing rate of interest while the borrower pays this rate minus the subsidy. The cost of socially allocating capital is recognized up front, and the allocation of capital in society is more efficient.

While not a complete or comprehensive set of reforms, I believe the proposals outlined above would do much to reduce systemic risk in the financial services industry and save taxpayers much in the process. ●

James C. Van Horne is the A.P. Giannini Professor of Banking and Finance, Emeritus.

U.S. Credit Crises Years Preceded by Speculative Excess

1819, 1837, 1857, 1873, 1893, 1907, 1919, 1930s, 1949, 1958, 1970, 1974, 1981, 1991, 2002, and 2008.

Source: James C. Van Horne

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