

# Hau Lee

Rescues  
Value from  
Bullwhips

**Jeffrey Pfeffer**  
on Power  
**Jennifer Aaker**  
on Social Media

Virtual Game  
Entrepreneurs

Dallas Fed President  
**Richard Fisher,**  
MBA '75

# Whips, Power, and Social Media

**HAULEE**, THE GLOBE-TROTTERING SUPPLY-CHAIN MASTER on our faculty, is that rare person who answers an email or voicemail quickly, pleasantly, with concise helpfulness and intelligence no matter where he happens to be in the world. As I struggle with my mountains of email, I wonder how he possibly does it. It must not be just my email he answers, for he is also highly respected by everyone with whom I have ever had a conversation about him. Yet when I query others about his “bullwhip effect” claim to fame, I discover that many of us who aren’t in directly affected professions are a little fuzzy about why executives at all sorts of companies respect his advice.

**Maria Shao**, a former business school case writer and reporter for the *San Jose Mercury News*, took on the task of capturing Lee and his work in print for us. The story begins on page 16.

In this issue, we also showcase ideas of faculty in the disciplines of marketing and organizational behavior. On page 26, we preview **Jennifer Aaker’s** soon-to-be-released book, written with her husband, Andy Smith, on how to use social media to create social change. I particularly like the way these authors employ decision trees to show novices, step by step, how to tell stories effectively

and spread them on Facebook, Twitter, or other social media. As a long-time storyteller in what is now referred to as “traditional media,” I can vouch for the underlying principles — they date back at least to Homer — that the authors skillfully adapt to new media. Aaker’s research on happiness and ripple effects also is applied here to the latest technology tools available to the general public.



**Jeffrey Pfeffer** also has a new book on the importance of power in your life (page 24). As legions of his former students can testify, Pfeffer is good at rattling cages. When my colleague **Rick Nobles** talked with him about the book, Pfeffer said he lifted plenty of examples of power

used well and not so well from his students’ experiences, so you may recognize someone you know in his book. At the very least, the book gives you a nudge to reinterpret your own past brushes with the powerful or your own use of power.

Faculty definitely take center stage in this magazine issue, but we also have lots of tidbits on alumni in class notes and features on two prominent figures in finance policy — Dallas Fed President **Richard Fisher**, MBA ’75, and MIT Professor **Bengt Holmstrom**, PHD ’78. Then there are all those gamers among our alums who are trying their luck in the latest social game industry. I don’t want to brag too much, but you have to admit the GSB offers a richly diverse community.

EDITOR

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The GSB is well represented at social-game giant Zynga. From left are Pablo Paniagua, MBA '09; Eric Tilenius, MBA '96; Tom Hsieh, Sloan '09; Michael Cibula, MBA '04; Driss Benamour, MBA '09; Ken Rudin (in Stanford GSB sweatshirt), MBA '94; and Abhishek Kumar (bottom), MBA '09.

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Richard Fisher, MBA '75, president of the Federal Reserve Bank of Dallas, with the city skyline behind him.



# How will the GSB help bring your ideas to life?

**Multidisciplinary collaborations spark innovation.**



Edward Castaño is combining his passions for the environment and entrepreneurship to launch a venture that could improve the lives of millions of people around the globe. As a candidate for joint master's degrees in business administration and environment and resources, he is developing an online civic-engagement platform that allows people to advocate for environmental policy change.

Castaño witnessed desperate poverty while backpacking around the world, which inspired him to focus his time at the GSB on gaining the tools and knowledge to make a difference. Recognizing that environmental problems are the result of a complex combination of factors, and that the solutions must also be multidisciplinary, he is working with Stanford peers from education, law, and journalism to create a website that enables people to take action.

"The fact that I can collaborate with all the other schools within Stanford makes coming to the GSB a very valuable experience for me. Through access to all the resources the GSB has, I have really been able to pursue my true dream in a way I wouldn't have been able to otherwise."

**Edward Castaño, MBA '10, MS '11**

Please join us in bringing ideas to life.

**Make a gift at:**  
**[gsb-thestanfordchallenge.stanford.edu](http://gsb-thestanfordchallenge.stanford.edu)**



**STANFORD**  
GRADUATE SCHOOL OF BUSINESS

THE  
STANFORD  
CHALLENGE

# Beyond Learning: Transforming MBAs

THE IMPACT OF OUR MBA PROGRAM goes beyond teaching our MBAs new concepts and skills: It transforms them as individuals. I have known this for some time. However, this year, my first as dean and the year in which I knew the students particularly well, as my daughter **Amber** is a graduate of the MBA Class of 2010, I gained a renewed appreciation for the power, breadth, and ambition of that transformation.

The foundation of our program continues to be firmly rooted in concepts and skills. Every MBA gains an understanding of economics, individual and organizational behavior, probability, statistics, modeling, and accounting, so that all graduates can interpret numerical evidence and human behavior, understand the basic performance of an organization, and project future outcomes. We expose every student to a variety of functional areas to prepare them for general management. Through our global course, global experience requirement, and emphasis on global content throughout the curriculum, we enable our graduates to work with people and in regions throughout the world. All this imparts knowledge that is critical to our students' future success.

But, we have moved beyond imparting knowledge; we also teach students to think, act, and even dream differently. This transforms our MBAs fundamentally and spectacularly.

**THINKING:** We teach our students to think critically and creatively. The former starts with *Critical Analytical Thinking*. Students learn to clarify objectives, identify assumptions, examine evidence, and construct basic arguments. This changes the classroom dialogue for the remainder of the MBA experience. I recall a case session last spring: After a few minutes of proffering opinions, a student said, "Yes, but let's recall the company's objective. Will these actions be sufficient to meet its goals?" Immediately, students applied their critical analytic thinking skills to realize that the steps discussed would leave the company far short of its ambitions, and so started thinking more radically.

To that end, we also emphasize creativity, out-of-the-box thinking, innovation. For example, in *Entrepreneurial Design for Extreme Affordability*, students apply new ways of thinking — including user empathy, design, and rapid prototyping — to perennial problems faced by the world's poor. For instance, working in interdisciplinary teams, **Tony Luckett** and **Lisa Scheible**, both MBA '10, found a way to turn latrine waste into compost, while **Kenneth Chua**, MBA '10, and **Kate Endress**, MBA Class of 2011, developed an inexpensive hand sanitizer. Both projects were for Nuru, a development organization in Kenya founded by **Jake Harriman**, MBA '08.

**ACTING:** Beyond thinking, we teach students how to act differently, thus how to affect positive change in others. This starts with *Leadership Labs*, where students learn self-awareness and influence skills. But it extends far beyond. In *Negotiations*, students negotiate. In *Acting with Power*, they combine learning from psychology and drama with practice performances in order to learn how to act with status



and authority. In *Leadership Coaching and Mentoring*, MBA2s integrate conceptual material with application as they coach/mentor MBA1s. Students such as **Ashley Evans**, **Amal Alibair**, and **Jason Hild**, all MBA '10, focused on transforming their understanding of themselves and their ability to lead others through electives such as these.

**DREAMING:** In addition to changing how students think and act, we raise their consciousness and ambitions. Through classes such as *The Future of Growth: Developed and Developing World* and Service Learning trips, many are exposed to issues in international development. Through classes such as *Social Entrepreneurship and Social Innovation* and programs such as Board Fellows, students learn about public management and social innovation. Some, such as **Reid Saaris**, MBA '10, found such organizations. Through classes such as *Leadership Perspectives* and through the View From the Top speaker series and conferences, students are exposed to business leaders in a variety of industries. Through classes such as *Managing Growing Enterprises* and through opportunities such as advisory sessions with entrepreneurs, students meet others who dreamed big and started companies to fulfill those dreams. Some, such as **Jason Lange**, **Ilana Stern**, and **Brendan Wallace**, all MBA '10, follow in their footsteps.

By not only equipping our students with knowledge but also affecting how they think, act, and dream, we transform our MBAs. We fundamentally change their understanding of the world's problems, their view of what is possible, and their ambitions for the impact they hope to make on the world. And, we equip them with the tools they'll need to turn their dreams into reality.

Read more from the students mentioned here at [www.gsb.stanford.edu/about/gallery-2010.html](http://www.gsb.stanford.edu/about/gallery-2010.html). ●

PHOTO BY JONATHAN SPRAGUE

<b>THE STANFORD CHALLENGE</b>	<b>Seeking Solutions, Educating Leaders</b>
	GSB annual fellowship need ..... \$15.5 million New campaign-endowed fellowships to date ..... 49 <b>Financial aid opens doors and changes lives.</b> For more information, see <a href="http://www.gsb.stanford.edu/giving">www.gsb.stanford.edu/giving</a>

# Noteworthy

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



Paul Auerbach, right, coordinated medical and logistical efforts to treat Haitian earthquake victims.

## Supply Chain Lessons from Haiti Relief Effort

When Paul Auerbach, Sloan '89, reached University Hospital in Port-au-Prince, Haiti, after the January 2010 earthquake, he realized the importance of the supply chain in the face of disaster.

Auerbach, a Stanford professor of surgery and specialist in emergency medicine, eventually assumed the role of lead physician and coordinated medical and logistical efforts of his team of Stanford doctors and nurses with those of other nongovernmental organizations, the military, medical volunteers, and groups from around the globe. Without proper equipment and, at times, pain medication,

the health care professionals diagnosed and treated people with severe spinal injuries, head trauma, fractures, and wounds. Many people required limb amputations.

Back at Stanford, where he spoke at the fourth annual conference on "Social and Environmental Responsibility in the Global Supply Chain" in April, Auerbach called military personnel "the only effective supply chain. Three hours after I gave them a very substantial list, the choppers started delivering."

Auerbach said that establishing more sources of food, supplies, and medicine for transport to affected areas will be important work for the future. As he learned the hard way, hav-

ing someone on the ground to receive and shepherd supplies is essential. Bringing communication equipment and setting up lines of communication is also fundamental, as are establishing and adhering to chains of command and knowing how to work with the various agencies involved.

"You need to be ready to leave at a moment's notice, but you hope you never have to," he said.

## Food Fortification Gives Infants a Healthy Start

Stephanie and David Dodson's lives changed a decade ago, when they visited a hospital in Honduras and observed a corridor full of mothers holding deformed

infants. They learned that they could do nothing for the babies. The damage had been done in the first few weeks of pregnancy because the mothers lacked micronutrients, particularly folic acid, in their diets.

Back in Massachusetts, Stephanie, MBA '88, and David, MBA '87, founded Project Healthy Children, a nonprofit organization fighting to prevent the same thing from happening to other infants. Through PHC, the Dodsons work with government health officials in Honduras, Nepal, Rwanda, Liberia, and Malawi to fortify food staples with micronutrients — folic acid, iron, iodine, and vitamin A — on a national scale. Last year, to help address problems on a local level, PHC sponsored four student projects in Stanford's *Entrepreneurial Design for Extreme Affordability* course. Among them was a device that would add iron to the water dispensed from village pumps in Rwanda and a device that adds vitamins and minerals to small flour mills in Nepal.

David Dodson worked for PHC part time for five years and then sold his stateside company to become full-time CEO of the nonprofit. Stephanie remains on the PHC board and is also director of Strategic Grant Partners, a foundation and pro bono consulting group she cofounded to help needy families in Massachusetts.

## Letter to Warren Buffett on Taxes and Sit-ups

"Dear Mr. Buffett," wrote Jennifer Bestor, MBA '80, "In 2003 you advised Governor Schwarzenegger to review Proposition 13 with an eye toward generating more revenue for California schools, cities, emergency services, and other local needs. The governor responded that Prop 13 is the

PHOTO BY CHUCK LIDDY/RALEIGH NEWS & OBSERVER





Jennifer Bestor, MBA '80, is working to see that homeowners don't pay a disproportionate percentage of California's property taxes.

'third rail' in California politics and that you would have to do 500 sit-ups if you mentioned it again. Please let me know how I can help you with the sit-ups. We desperately need some energy from that third rail."

Bestor, the mother of a child in the cash-strapped Menlo Park City School District, explained that she had pored over county assessment rolls and found an increasing disparity between residential and commercial real estate taxes since the passage of the 1978 initiative that limited property tax increases. Then, Menlo Park businesses and homeowners paid almost equally. But 30 years later, homeowners were paying two-thirds of the total. Bestor suggested equalizing the burden by reassessing nonresidential property every 20 years, and she hoped the investor from Omaha would use his influence to help the cause.

She mailed two copies, one to Omaha and the other to her local paper, the *Almanac*, where it appeared as an open letter.

A few weeks later, Buffett wrote back. "Dear Jennifer, I'm going to be 80 in August; 500 sit-ups are out of the question." He later suggested, "Maybe we'll get 498 volunteers who will each contribute one sit-up and thereby bring our requirement to a manageable level."

Bestor has continued her efforts. She's talked with tax

assessors in three counties about the possibility of her reassessment plan, organized a letter campaign to encourage local businesses with disproportionately low taxes to contribute

to the city's public services, and, yes, recruited friends and neighbors to work on their abs with Warren Buffett.

Hear Jennifer Bestor compare commercial and residential property tax bills. BizOnline. Stanford.edu /bestor



## Alum's Plan Energizes Future Power Workers

More than a decade after leading the business school's first Public Management Initiative in education, **Van Ton-Quinlivan**, MBA/MA Education '95, created and now leads another program that combines her interests in business and education.

Working for California energy company Pacific Gas & Electric, Ton-Quinlivan realized that as the energy business changes, jobs in the industry will have to change too. She came up with the idea of PowerPathway, a workforce development program

to train current and potential energy workers through courses offered at local colleges.

Searching out colleges in areas that PG&E serves, Ton-Quinlivan and her team identified receptive campuses and helped out with curricular details. The program kicked off in January 2008 at four Bay Area community colleges, offering courses aimed specifically at veterans, displaced workers, the underemployed, and people in mid-career. Although PG&E made no commitment to hire the graduates, more than half were hired by either PG&E or its contractors.

So far, PowerPathway has been implemented or is in development at 16 California community colleges and 1 state university campus, and its graduates have been hired by PG&E and other energy companies for jobs paying up to \$35 an hour.

Ton-Quinlivan is now director of strategic human resources

## For the Record

### Class of 2010 Graduation

#### DEGREES GRANTED

Total MBAs	<b>351</b>
MBA only	<b>325</b>
MBA/MA Education	<b>17</b>
MBA/MS Environment and Resources	<b>6</b>
JD/MBA	<b>3</b>
PHD	<b>14</b>
MS Business Research	<b>3</b>
MS (Sloan)	<b>54</b>

#### CERTIFICATES

Global Management	<b>81</b>
Public Management	<b>64</b>

#### MBA HONORS

##### Ernest C. Arbuckle Award

*Contributed most to the fulfillment of the goals of the Stanford Graduate School of Business in and out of the school:*

Roanak Desai (posthumous)

##### Henry Ford II Scholar

*Top scholar:*

Jason LeeKeenan

##### Alexander A. Robichek Award

*Achievement in finance courses:*

Sameer Narang



##### Arjay Miller Scholars

*Top 10% of the class:*

Howard Bornstein  
Eric Michael Castro  
Robert Daniel Cecot  
Filbert Cua  
Christoph Dankert  
Michael Lee Dawson  
Jeremiah Dillon  
Ashley Simmons Evans  
Rebecca Katherine Gomez  
Paul David Hackwell  
Morgan Jerome Hallmon  
Kenneth Warner Hammond  
Jason Hild  
Rachel Janna Holt  
Adrian Michael Kaplan  
Daniel Christopher Kieffer

##### Hoon Min Kim

Timothy Teck Choon Lee  
Jason LeeKeenan  
Daisy Liang  
Thomas William Macdonald  
Dennis John Mak  
Andrew Mokover Martin  
Ryan Richard Myers  
Sameer Narang  
Pierre Eugene Jean Pont  
Thomas Rigo  
Cynthia Parker Skaruppa  
Matthew Jeffrey Skaruppa  
Peter Ernstrom Sturgeon  
Brent Stephen Tworetzky  
Iain Ware  
Meredith Ann Whipple  
Jes Wolfe  
John Tanner Woolley

## Noteworthy

programs for PG&E. “I am living out my commitment to education reform,” she said, “but this time via a corporate platform.” She laughed. “You know, that’s what I said I wanted to do when I wrote my Stanford application.”

### ‘Lousy’ Career Move Points to Dream Job

“As I look back now, I can see how all the different experiences along the way helped prepare me for this job, even if I didn’t see it at the time,” **Jonathan Reckford**, MBA ’89, said during a View from the Top speech to students in April. His career has taken him from a series of private-sector jobs to his current post as CEO of global nonprofit Habitat for Humanity, and his success, he says, comes from following his faith and his heart.

When Reckford’s job as presi-



*Jonathan Reckford, left, Habitat for Humanity CEO, and Freddie Mac President Gene McQuade write notes on a Habitat for Humanity house during a building project in Washington, D.C., in 2005.*

dent of stores for the Musicland Group was phased out after Best Buy acquired the company in 2000, he increased his volunteer work at Christ Presbyterian Church in Edina, Minn. He soon was asked to become the church’s executive pastor, a job

that he wasn’t expecting and that many friends told him was a lousy career move.

While working for the church, he got a call from a recruiter looking for a chief executive for Habitat for Humanity, which was gearing up for rapid

worldwide growth. That was his dream job, Reckford realized. He joined the faith-based group in 2005.

Habitat is the largest private homebuilder in the United States, largely because of efforts to help residents displaced by Hurricane Katrina, he said. In addition to building new houses, the organization buys and rehabilitates foreclosed homes. Internationally, Habitat helps fill the housing needs of tsunami victims in Asia and earthquake survivors in Haiti and Chile. As many as 95% of the world’s families do not have access to home loans, so Reckford said his next initiative will be to help launch a global housing microfinance fund.

“My life changed dramatically for the better during one of the quiet times in my life, when I wasn’t earning a dime and was probably the most frustrated,” he said. “I don’t think I could have ever intentionally charted this path.”

PHOTO BY KEVIN DIETSCH/UPI

## New Ventures

### Angel Handbags

After working in large e-commerce companies for a decade, **ReShon Anderson**, MBA ’01, figured it was time to go out on her own. She never was “a big handbag person,” she says, but selling handbags by promising young designers offered her a niche market. In 2009, Anderson won a \$25,000 MillerCoors Urban Entrepreneurs grant, which helped fund her inventory. Angel Handbags, her Virginia-based handbag company, sells across North America plus Europe and in Japan and Australia.

### Casa Forma

Founded by **Faiza Seth**, MBA ’06, Casa Forma is an upscale interior design firm that specializes in property development, property search, and custom-made furniture. Seth is expanding her business from the Kensington district of London to New Delhi, where, she says, Indians are no longer satisfied with traditional

homes and are looking for a more international style.

### Counsyl

Silicon Valley-based Counsyl has developed a relatively inexpensive saliva test to identify individuals who carry genes for an array of genetic diseases, including cystic fibrosis, Tay-Sachs, and sickle cell. The test is available from doctors and more than 100 fertility clinics across the country. The company, cofounded by **Ramji Srinivasan**, Class of ’08, was a winner in the biosciences division at TiEcon 2010, which billed itself as the world’s largest conference for entrepreneurs.

### Foursquare

Foursquare is a mobile phone app that encourages users to check in at restaurants, shops, and other public places to tell friends where they are and also to earn discounts and other prizes. Foursquare’s director of business development, **Tristan**

Listen to the stories of inspiration behind these new companies. [BizOnline.Stanford.edu/newventures](http://BizOnline.Stanford.edu/newventures)



**Walker**, MBA ’10, signed on with the fledgling social media company in 2009, when it had only three employees, including its two cofounders. By Walker’s business school graduation in June, the company had 1.6 million users worldwide, and Walker’s office had a backlog of retailers begging for a piece of the action.

### Gogo Lingo

This educational website that teaches little kids Spanish grew out of a grad school project by GoGo Lingo’s cofounder and CEO, **Afsoun Yazdian**, MBA/MA Education ’07. At the education school, Yazdian concentrated on the use of interactive technology for teaching languages. Across the street at the business school, she learned that the language-

study method GoGo calls Playful Immersion had market potential. GoGo Lingo went public in 2009.

### Jooners

**Nazila Alasti**, MBA ’88, founded Jooners to help busy parents like her organize and coordinate their family and volunteer activities. The online site supplies templates for many group events, among them food drives, phone banks, parent-teacher conferences, and family reunions. Subscribers pay an annual fee.

### Lightinthebox

Founded by former Google-in-China chief strategy guy **Alan Guo**, MBA ’05, the online shopping site Lightinthebox offers made-in-China products, ranging from wedding dresses and beauty products to security systems and cell phones, all at wholesale prices. The company has customers in 50 countries.



## Future African Leaders Ready for Next Step

The African Leadership Academy, a two-year prep school dedicated to producing future leaders for the African continent, graduated its first class in June. The school was founded in 2004 by **Fred Swaniker**, MBA '04, and **Chris Bradford**, MBA/MA Education '06, who spent four years, two without pay, seeking backers, developing a curriculum, hiring faculty, and building a campus outside Johannesburg, South Africa, before admitting the school's first students in 2008.

The 97 students in the inaugural class came from 29 African countries. They were chosen by merit alone out of 1,700 applicants, and 95% of them required financial assistance. During the past two years they took rigorous A-level academic courses to prepare them for college, as well as courses in leadership, entrepreneurship, and African studies.



From left, **Miranda Nyathi**, **Maputi Elizabeth Bothole**, **Imelda Rweyemamu**, and **Ndeye Thiombanede** of the African Leadership Academy's inaugural class graduated in June on the South African campus.

They established businesses on campus and aided communities outside.

Although a large majority of this year's graduates are headed for universities in Europe and North America, their ALA loans will be forgiven if they return to

Africa by age 25 and commit to working on the continent for 10 years.

"Our dream is not to educate kids and get them to college. Our dream is to transform Africa," Swaniker told Abu Dhabi's the *National* newspaper.

## Comdex Virtually Rises from Ashes

In the early days of personal computing there was no better place than the Computer Dealers Exhibition, better known as Comdex, to learn about the latest version of Lotus 1-2-3 or argue the merits of the "Trash 80." The original Las Vegas geekfest succumbed in 2003, but it will be reborn in November as a virtual convention, sponsored by United Business Media (UBM), a trade-magazine publishing company and owner of PR Newswire.

Under the leadership of CEO **David Levin**, MBA '87, Britain's UBM has moved in the last five years from mostly print to mostly digital and begun to devote a large share of its resources to hosting trade events, with special emphasis on building business networking events in China and India. More than 300 live events generated 50% of UBM's profits last year, while the company's remaining

*Continued on page 8*

PHOTO COURTESY OF AFRICAN LEADERSHIP ACADEMY

## Ooh I Love

If you've ever just had to have a pair of Louboutin peep-toe pumps, you'll love Ooh I Love, cofounded by **Christopher Couhault**, MBA '09. Each bid at this auction site costs \$1, but final prices, not including bids, are rock bottom. When we last looked, a \$50 gift card for Nordstrom sold for \$1.36, and a Bottega Veneta leather clutch, worth about \$595, brought \$4.26. Ooh, and somebody tippy-toed away in that \$800 pair of Louboutin pumps for only \$33.12.

## Pagatech

Less than 20% of Nigerians have access to banking services, yet 40% have mobile phones. **Tayo Oviolu**, MBA '05, and **Jay Alabraba**, MBA '07, took note of those figures and founded Pagatech to make it possible for Nigerians to pay bills or send money to an individual by cell phone. The recipient takes the message to a local agent, often a mom-

and-pop store, to be reimbursed. "Our vision is to enable a cashless society and bank the unbanked," Oviolu said.

## Progreso Financiero

The son of Mexican immigrants, **James Gutierrez**, MBA '05, founded Progreso Financiero to make small loans to working California Latinos who lack a credit rating. As customers repay their loans, Progreso reports to credit bureaus, thus building the borrowers' credit scores. By summer 2010, the company had financed more than 50,000 loans and opened 29 locations in the state. In May, the company was certified as a Community Development Financial Institution by the U.S. Treasury Department.

## Regroup

**Joe DiPasquale**, MBA '06, is founder and CEO of Regroup, a social platform that allows schools and other organizations

to coordinate the communications of their constituents. Regroup was founded and tested at Stanford in 2006.

## Skinny Scoop

The social network Skinny Scoop was founded by **Eden Godsoe** and **Erin Crocker**, both MBA '98, for women to share experiences involving pregnancy, child care, sex, careers, and anything else that concerns them. Members' opinions are aggregated and the results displayed in easy-to-access, biz school-type charts, a practice that has intrigued advertisers looking to connect with the mom market.

## Viscira

Founded by **Dave Gulezian**, MBA '94, Viscira develops new media solutions to medical problems. One of the company's goals is to get doctors to empathize with their patients' experience. Using virtual reality, Viscira simulated the vision

of a person with age-related macular degeneration and introduced the simulation to physicians at an ophthalmology convention. Of about 700 doctors who saw the world through an AMD patient's eyes, 87% said the experience would significantly affect the way they treat their patients.

## Worker Express

Worker Express, a project developed at Stanford's Hasso Plattner Institute of Design by **Pablo Fuentes**, MBA '10, and **Joe Mellin**, MS '09 Engineering, started its own work in the spring. The company interviews construction workers, gardeners, and other laborers, then displays on its online site the names, photos, required hourly wage, work skills, and language skills of those who pass muster. Once workers are chosen by employers, Worker Express takes care of scheduling, pays workers' comp and employment tax, and handles payroll.

## Noteworthy

100-plus print magazines, which include titles such as *Information-Week* and *Building*, brought in a mere 5%. Levin doesn't plan to quit print altogether, and in his March earnings presentation, he reported launching niche business-related titles in India last year.

But Levin is looking toward virtual events as a greater opportunity. With business travel reduced because of the recession, UBM ran 38 last year, including job fairs, trade shows, and conferences. November's resurrected Comdex promises an online conference hall, an exhibit hall, hospitality suites, a demo center — in fact, everything you left in Vegas except roulette wheels and Elvis impersonators.

### New Affinity Group for Gay Entrepreneurs

StartOut, a nonprofit organization cofounded by **Darren Spedale**, MBA/JD '04, recently met one of its goals head on: to give gay and lesbian entrepreneurs public

visibility, especially in business and the media. Spedale, joined by StartOut board members **Chip Conley**, MBA '84; **Joe DiPasquale**, MBA '06; and **Terry Allen-Rouman**, MBA '93, very publicly rang the Opening Bell at the New York Stock Exchange in celebration of Gay Freedom Month in June.

Spedale, founder and CEO of A-List Global Media, came up with the idea of StartOut when he realized that other types of entrepreneurs had affinity groups but gays didn't. Founded in 2009, StartOut offers networking events, a mentorship program, monthly forums for small groups, and a speaker program featuring successful gay and lesbian entrepreneurs. More than 1,000 people participated in StartOut during its first year.

### Former Exec Ed Staffer Fran Rinaldi Dies at 91

**Fran Rinaldi**, a long-time member of the Stanford Executive Program staff who kept in touch with many program participants, died in March at her home in El Dorado Hills, Calif., at age 91. She joined the business school staff in 1965 and retired in 1986

as the program's assistant director for administration. "Fran developed deep ties to the school, and her friendships with some of the SEP participants lasted for years. It was more than just a job to her," GSB staff member **Jeannine Williams** said.

### Students Project Power Through Acting Class

MBA students who thought an acting class would teach them how to charm their way through tense business situations were set straight the first day of a spring quarter elective at the Graduate School of Business. "Acting with power isn't pretending or putting on a performance but bringing truth to a role," said Professor **Deborah Gruenfeld**, who studies the psychology of power and powerlessness.

In the *Acting with Power* course students tried being meek, authoritative, approachable, aloof, snotty, or gracious as they applied various acting techniques to scenarios. Gruenfeld and drama lecturer **Kay Kostopoulos** said any of these approaches might be used to

help an actor achieve his or her desired outcome.

The tendency is for actors to think it's all about them, but acting is really about the other person on the stage, Kostopoulos said. Actors need to listen to each other carefully in order to pick up cues, some verbal, some not. It's no different in the business world, she said.

Learn to project power with acting at the class blog. [BizOnline.Stanford.edu / actingclass](http://BizOnline.Stanford.edu/actingclass)

### Empire State Building Gets a Green Makeover

For an 80-year-old grande dame, the Empire State Building is looking pretty good. And once a \$20 million energy overhaul is completed, project managers say New York's tallest building will consume approximately 38% less power annually. One component of the renovation is to retrofit the skyscraper's existing 6,500 double-pane windows on site. "Glass technology has improved to where the cost of re-engineering the double-pane windows will pay for itself within three years," said **Robert Clarke**, MBA '72, marketing director at Serious Materials, the company chosen to upgrade the windows.

If all goes according to plan, by December crews will have removed all of the windows — 50 a night — and taken them to a workshop in the building. The windows are disassembled and cleaned, and a thin layer of film is suspended between the two panes before inert gases are added. The sealed window sashes are returned to their frames the same night.

Different grades of film are used depending on the window's orientation. For example, north-facing windows need to absorb the sun's rays while other sides need to reflect it. The film, which is virtually transparent, is being supplied by Southwall Technologies, a company founded by **Melville Hodge**, Sloan '61.

"Having the shop on site eliminates transportation costs, and using the glass from the existing 18-year-old windows keeps it out of landfills," said **Michelle Proehl**, MBA '09, business development manager at Serious Materials. ●



### Three Lives Remembered

A stainless-steel structure commemorating three MBA students killed in a 2008 car crash was dedicated May 1. It is etched with the names of **Viet Nguyen**, '10; **Christopher Sahn**, '09; and **Micah Springer**, '10, and comments from family and friends describing the three students. The 24-foot-tall column, funded by donations from the business school community, stands among the palm trees at the Schwab Residential Center. The monolith was designed by the Redwood City design firm Larimer + Bernheim.

# Institute for Entrepreneurship Expands

**A new program is aimed at Silicon Valley professionals and nonbusiness grad students.**

AS A POSTDOCTORAL research fellow at Stanford Medical School, **Samuel Mazin** had a new idea to improve radiation therapy for cancer treatment. “I was very excited about it,” he recalled, “but I had no clue how to pursue it.”

Then he discovered the business school’s Summer Institute for Entrepreneurship. Mazin and his classmates studied business fundamentals with 18 faculty, heard firsthand accounts from 46 Silicon Valley entrepreneurs and venture capitalists, were mentored in developing their project ideas by Stanford MBA students, and were coached on pitching their ideas.

Two years later Mazin is working full time on building his idea into a business.

“It gave me the tools and confidence to pursue the venture,” he said.

Since its founding in 2006, the Summer Institute for Entrepreneurship has spread the learning experience across four weeks. In January 2011 the GSB will launch a new program, based on the same basic model but spread over approximately 40 evening sessions held twice a week into May, designed to attract working professionals from Silicon Valley as well as nonbusiness Stanford graduate students.

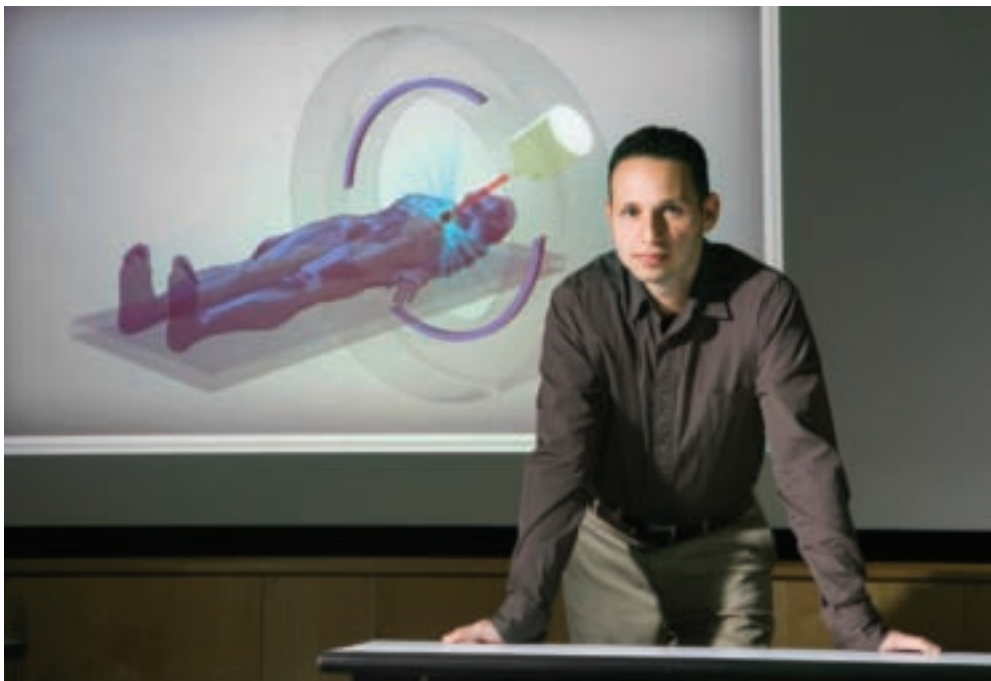
Called the Program in Innovation and Entrepreneurship (PRIE), the new program has the same goals as its summer counterpart. “Our goal is to expose participants to the fundamentals of business while also engaging in the practical aspects of identifying, evaluating, and moving entrepreneurial ideas forward,” said **Peter Reiss**, faculty director of both programs.

The January class will be open to Stanford master’s and doctoral students and postdoctoral scholars, as well as men and women from Silicon Valley with strong technical backgrounds. Participants should have high proficiency in their field, perhaps even some business experience, but must not have had previous graduate business education, Reiss said.

“This new program will provide graduate students from nonbusiness fields the management knowledge and skills they need to become leaders in established and startup organizations,” said business school Dean **Garth Saloner**. Saloner, along with university President **John Hennessy**, developed the original idea for the summer program as a way to help graduate students in nonbusiness disciplines to collaborate and benefit from the resources of the business school.

“The program is designed to get emerging entrepreneurs out of their daily environments and expose them to different ways of thinking and interacting,” said **Aimee Slobin**, associate director of both programs. The new program “provides participants from diverse backgrounds with the opportunity to learn about business fundamentals and bring a venture idea to life in a collaborative environment.”

Before they arrive, participants are invited to submit a description of the project they would like to pursue. Roughly a dozen are selected



*Samuel Mazin honed his business idea for a radiation therapy system as part of a GSB summer program in entrepreneurship. A new version of the program, open to Stanford grad students and working professionals, will start in January.*

as class projects, and diverse five-member teams are formed. Guests from Silicon Valley offer advice on the projects. An advantage of the program beginning in January will be that MBA students will be available to be integrated into the coursework throughout its duration.

Past summer program participants say they benefited both from the quality and variety of interactions with faculty and students and from interacting with dozens of guest speakers from the business world. “Understanding the fundamentals of important topics in business, such as accounting, finance, marketing strategy, and economics, is an enormous asset no matter what career path I choose,” Mazin said.

“The guest speakers did a great job of conveying the true entrepreneurial spirit,” said **Ken Schulz**, who participated in the summer program while pursuing his PHD in microbiology and immunology at Stanford. “It’s one thing to be told, ‘Do what you love.’ However, when you hear one story after another about how people turned their passion into a business — as opposed to trying to find the next pet rock — the point really comes across.”

The new PRIE winter program will be housed in the school’s Knight Management Center, which is scheduled to open just weeks before the first session in January. Deadline for applications is November 15. Details and the application information are available at [www.gsb.stanford.edu/prie](http://www.gsb.stanford.edu/prie). ●



# How to Turn Adversity into Opportunity

CEOs John Donahoe and Kent Thiry describe driving change despite tough times.

WHEN **JOHN DONAHOE**, MBA '86, and **Kent Thiry**, BA '78, agreed to keynote the 2010 spring reunion at the Stanford Graduate School of Business on April 30, organizers knew they would put on a good show. Both men faced tremendous challenges when they took over the helms at their respective companies, eBay and DaVita. They're close friends. And as GSB lecturer and moderator **Joel Peterson** joked, "When's the last time you had two CEOs from Fortune 500 companies on the same stage? Probably testifying before the Senate."

The line drew a big laugh from the high-spirited audience — young alumni from the MBA Classes of 1995, 2000, 2005 and 2009, as well as Sloan Fellows from 2009. Yet the program also had a poignant side, as the two chief executives discussed lessons learned the hard way, about life, leadership, and work-life balance.

Donahoe was in a particularly reflective mood — perhaps because he was celebrating his 50th birthday. He said he first met Thiry more than 20 years ago when the latter hired him at the Boston-based consulting firm Bain & Co. Eventually Donahoe rose to become that firm's worldwide managing partner, overseeing 29 offices and 3,000 employees. He moved to eBay five years ago and was named president and CEO, succeeding Meg Whitman in 2008.

Today eBay's stock is on the rebound. But as Peterson noted in his introductory remarks, Donahoe's early months as head of the e-commerce giant were "real hell." One of his first tasks was to carry out the first round of layoffs ever at the San Jose-based company. He also decided to revamp the company to focus less on collectibles auctions and more on new, fixed-price items — a move that infuriated many longtime eBay community members. At one low point, Donahoe said, he clicked onto YouTube and found a hate video depicting him as a Nazi in *Schindler's List*.

"I can't tell you it was easy," the CEO told his rapt audience in Bishop Auditorium, "but what I can tell you is that I had some experi-



*John Donahoe, left, became CEO of eBay during a rough time for the e-commerce giant. When Kent Thiry, right, took charge at DaVita, operational costs were spiraling.*

ence. I took over Bain's San Francisco office when the firm was bankrupt, during the dot-com crash, so I had some experience early in my leadership tenure of having a crisis and understanding that crisis is an opportunity. The hardest thing is just having the fortitude to stay with it and not wish it were better, but to recognize it for what it is and take advantage of the adversity. You can drive more change in tough times."

Thiry, 54, faced similar challenges in 1999 when he took over as chairman and CEO at DaVita Inc. The company, which provides in-center and home-based kidney dialysis services, is repeatedly ranked among *Fortune* magazine's most admired U.S. health care companies. But at the time, its operational costs were spiraling out of control, and many of its top managers had been ousted or fled.

Thiry took immediate steps to tighten the company's billing practices and build a new executive team. He also spent considerable time and energy overhauling the company's culture, giving it more of a community feel. "Creating a sustainably distinctive culture requires the same kind of strategic and operating discipline as figuring out a corporate strategy," he explained. "It takes intellectual clarity; it takes clear allocation of responsibility; it takes meticulous

*Continued on page 15*

## Online Reunion Video

CEOs **Kent Thiry** and **John Donahoe** were not the only ones discussing leadership challenges during spring reunions. Members of the MBA Class of 2005 reunited and shared lessons they have learned so far — about leadership and life. Alumni had lunch with their favorite professors and joined in faculty-led discussions on work-life balance, manag-



ing teams, and making tough personnel decisions. They held small-group talks on such topics as "Coping with Stress," "Influencing Across Generations," and the challenges of "Applying Touchy-Feely in the Real World." They also heard from a panel of six entrepreneurial classmates who described the challenges of running companies. Watch alumni share their reactions to the event in a 3-minute video at [BizOnline.Stanford.edu/reunionvideo](http://BizOnline.Stanford.edu/reunionvideo).

# The Case Against Full Disclosure

**Bengt Holmstrom, PHD '78, says investors see benefit to opacity in securities markets.**

YES, THERE IS GREED on Wall Street and most likely on your street, too. But if we collectively attribute the recent financial crisis to “devious intent,” we may be condemned to relive it.

That’s the opinion of **Bengt Holmstrom**, PHD '78, who is currently the Paul A. Samuelson Professor of Economics at MIT, the first Sheila and Mark Wolfson Fellow at Stanford’s Institute for Economic Policy Research, and a member of the governing board of Nokia.

Some economists attribute the financial crisis to Wall Street bankers setting up a shadow banking system that intentionally provided investors with “false substitutes” for old-fashioned bank deposits. Holmstrom argues that the bankers created securitized products from mortgages and other types of consumer loans that were valuable both to their investors and society as a whole.

Creating these asset-backed securities “was a perfectly sensible thing to do. No greed was necessary,” he said. The crisis was caused not by unworthy underlying investments but by the fact that individual sellers and buyers don’t watch out for the system as a whole.

“People say securitization is alchemy. That’s nonsense,” Holmstrom said. “It’s like if you have a thousand cows whose milk is very thin, you can still get plenty of cream by just making sure you take out the cream from the thousand. If you have mortgages that default 50% of the time, you put them in a bag with others that don’t default and you will have some triple-A rated securities, because you will have money coming in unless the defaults on mortgages are perfectly correlated.

“The one thing you can criticize, in my view, is that [financial system regulators] should always be cautious when something is growing exceptionally fast, and the shadow banking system grew very fast.”

Individual private banks, he said, may monitor their own risks by watching “how many drops they put into the systemic risk bucket,” but they don’t consider the social cost of the bucket running over its brim. For that reason, he said, “I am for reforms to provide some degree of transparency in asset-backed security markets.” But he added that there are alternatives to complete public transparency, such as clearinghouses and behind-the-scenes stress tests on banks by regulators. Complete transparency may only push people to other nontransparent markets because people want “information insensitive” or opaque markets.

Holmstrom says economists still don’t fully understand the deeper causes of the crisis. They know that some investors lost their trust in the securitized assets, which eventually triggered a sudden run on the shadow banking system. Runs on U.S. commercial banks had ended after the Great Depression with the creation of federal deposit insurance. So why did the shadow banking system



**Bengt Holmstrom**

without this insurance grow so fast?

“The answer in part is that because of globalization, there were significant cash imbalances between countries,” Holmstrom said. The Chinese and Eastern European governments, even corporations with billion-dollar surpluses, “looked for safe, relatively liquid places to put their money. Presumably they felt they might need the money soon, and you could get your money out of these investments fast and safely.” The regular banking system was less useful because of the \$250,000 cap on insurance.

Perhaps U.S. housing market securities became the cash “parking space” of choice, he said, because American policies encouraged people to buy homes. Also, the U.S. financial services industry had figured out how to transform such a long-term investment as a house into one so liquid that a lender could get his or her money out at seemingly nonexistent risk by using repurchase agreements.

In a repurchase agreement, party A buys a security from party B at a price below the market price. At the same time, party B agrees to buy back the security on a future date, often overnight, for a predetermined higher price. The two transactions look much like a securitized loan, Holmstrom said, but if a secured loan defaults, party A would have to wait for a bankruptcy court to award him something

*Continued on page 15*

# The Federal Reserve's Dallas Maverick

Frank, colorful, and pragmatic, Richard Fisher often dissents on inflation, deficit decisions.



SURROUNDED BY PHOTOS of himself with presidents and foreign dignitaries and all manner of award plaques and commendations, **Richard Fisher**, MBA '75, looks every bit the patrician banker sitting in his palatial office on the 14th floor of the Federal Reserve Bank of Dallas.

But on this day, he calls a visitor's attention to a small, framed, blue document with faded typing dated 1941. "Lemme tell you what's cool about this," he says.

Thus begins a story about how his father, Les Fisher, a native of Queensland, Australia, was denied entry for citizenship into the United States in 1937. "They let my mother into the United States,

but when my father first came here he didn't have the acceptable documents or something," Fisher says. "So he stayed in Tijuana and would just go back and forth across the border to check on his wife."

It wasn't easy, however. The faded document attests to the \$8 "head tax" his father paid to walk across the Mexican border to visit his wife in a Los Angeles boarding house.

The son today, tall and immaculately dressed in a dark suit and rimless glasses, seems to be a banker right out of central casting. He has the requisite educational pedigree — Harvard, Oxford, Stanford — but he doesn't speak in the tortured syntax made famous by former Fed Chairman Alan Greenspan. Fisher takes pride in speaking his mind clearly and honestly, which has earned him a reputation as somewhat of a maverick in the staid circles of the Fed.

As president of the Federal Reserve Bank of Dallas, Fisher, 61, is one of the 17 people who currently make up the Federal Open Market Committee, which is chaired by Ben Bernanke. The FOMC makes decisions regarding interest rates and the nation's money supply. Fisher dissented from the majority of that committee five times in 2008 when it voted to reduce interest rates, and he was outspoken in his criticism when the Federal Reserve decided to buy \$300 billion in U.S. Treasury securities in 2009. It wasn't his turn to vote on the FOMC this past August when it decided to reinvest principal from other investments into more long-term Treasuries, but he told *Stanford Business* that he was "skeptical" that it would induce businesses to hire more workers or invest in plant equipment and that he worried that "it might send a signal that we will monetize the fiscal promiscuity of Congress" down the road.

Herb Kelleher, former CEO of Southwest Airlines and deputy chairman of the Federal Reserve Bank of Dallas, said Fisher's forthrightness is refreshing. "He doesn't just go along to get along," Kelleher said. "He is someone who can be iconoclastic in his thinking, but he is also a team player."

Even before the financial crisis, Fisher was known for his frank, colorful language.

During one of his speeches on the economy, for example, he compared the "hot" service sector to Hollywood actress Scarlett Johansson. Asked about this, he said, "I describe what we are doing in non-PHD economic terms. I guess that makes me different."

Fisher's dissenting votes against reducing interest rates were the result of his bone-deep conviction that inflation must be fought at every turn. At the time of those votes, the United States was experiencing significant inflationary pressures. He feared that lower interest rates coupled with massive government spending and deficits eventually would ignite inflation. And maintaining a stable currency is one of the mandates of the central banking system.

"I have dissented more than anybody else over the cost of funds [the federal funds rate]," he said. "But I am a big supporter of Ben Bernanke



and his efforts [during the crisis], which I thought were brilliant.”

Fisher was referring specifically to Bernanke’s 2008–2009 efforts to revive interbank lending and to restore confidence in the markets for commercial paper, asset-backed securities, and money market funds. “When the commercial paper market came to a halt, the Fed had to make the market,” he said. “We had to be there to back up the money market mutual funds. That to me was more important than cutting rates to zero.”

James Hackett, chief executive officer of Anadarko Petroleum Corp. and current chairman of the Dallas Fed, said Fisher “brings to the table some unique skills for a bank president. He is very effective in both knowing the business community and in understanding the political apparatus outside of the Federal Reserve, particularly Congress.”

While Fisher supported Bernanke’s efforts to stabilize the banking system, he balked when the Fed decided to start buying \$300 billion worth of U.S. Treasury securities earlier last year. Some refer to that as printing money to service the debt — monetizing the debt, as it is called.

“I argued for zero [to be spent buying Treasuries]. I’m just glad it wasn’t more,” he said. “If we are viewed as monetizing these deficits we become Argentina. People will lose faith in the central bank.”

It was bad policy, plain and simple, he said. Obviously, neither he nor the Federal Open Market Committee has any control over the spending habits of Congress, and Fisher is disappointed with both Republicans and Democrats for creating such huge fiscal deficits.

“My generation and the people we put in office, for whom we all voted, have basically stolen from our children, our grandchildren, and our great-grandchildren, and something has to be done about it,” he said. He wants Congress to get its fiscal house in order, and, always the optimist, he believes that the politicians “will dig deep eventually” and solve the problem. He believes that some combination of decreased spending and higher taxes is the answer. “The public has had it, and the Fed is not going to monetize it, so someone has to pull up their socks,” Fisher said.

Throughout history and in many countries when fiscal authorities dig themselves a hole with deficits and other unfunded liabilities, he said, they turn to the central bank to print money and inflate their way out. “Obviously, as a central banker I am very worried that might be something politicians might be tempted to do. I don’t believe anybody on the FOMC will be a party to that.”

In speeches, Fisher has been highly critical of how large some financial institutions have become. These so-called too-big-to-fail institutions are too big to supervise or manage, he said.

**“My generation and the people we put in office, for whom we all voted, have basically stolen from our children, our grandchildren, and our great-grandchildren, and something has to be done about it.”**

“After a certain size and scope are achieved you lose touch. I am an advocate of reducing the size of these large too-big-to-fail institutions, and there should be limits to the amount of leverage they are allowed to employ.”

Fisher was born in Los Angeles in March 1949, about two years after his father became a U.S. citizen. Living expenses were high, so the family moved to Mexico City, where Spanish was the language Fisher learned in school. When his family moved to Miami Beach, he had to repeat fifth grade because his English skills were deficient. When the family moved back to California, Fisher attended South Pasadena Junior High, a school with a unique math curriculum based on a model used at Yale University. He excelled in it, and perhaps



*Richard Fisher, MBA '75, listens to a speech by Federal Reserve Chairman Ben Bernanke in Dallas last spring.*

because of that — although he doesn’t know for sure — a Philadelphia bank, Girard Trust Co., gave him a scholarship and cash to attend Admiral Farragut Academy, a military-style college preparatory school then located in Pine Beach, N.J.

“My father somehow talked them into giving me money. I don’t know how. I was only in the bank one time, and all I remember is someone sort of patted me on the head and sent me on my way,” he said.

Fisher went next to the U.S. Naval Academy and expected to become a pilot and probably serve in the Vietnam War. “I loved the training, the whole naval discipline thing,” he said. But two years into the program, a professor suggested he was academically gifted enough to attend Harvard College. Also, the notion of him flying jets was unlikely because he had 20-40 eyesight.

Fisher transferred to Harvard, where he worked his way through as a fry cook at night and at a bicycle shop on weekends. After graduating in 1971, he studied Latin American politics at Oxford, where he met his future wife, Nancy. They married in 1973 and came to Stanford.

Even 35 years after graduating from the MBA Program, he can still recite the names of many of his professors. His favorite was **George Leland Bach**, who taught him economics. Bach “opened my eyes to just the practical aspects of economics,” Fisher said. “If he called on you and you were not precise in your answer, you paid the price.”

It was at Stanford, he said, that he learned that good business decision making involves dealing with uncertainty. “The great value of Stanford was teaching me to think in probabilistic terms, to think in decision trees,” he said. “You want a certain outcome, but you need to think about what happens if that doesn’t occur. That helped guide me through the decisions I made during the financial crisis.”

Fisher’s banking career began at Brown Brothers Harriman & Co. under the tutelage of Robert Roosa, a former senior official of the Federal Reserve and undersecretary of the Treasury, who wouldn’t hire Fisher until he promised that he would one day go into public service. “I am doing that now,” Fisher said. “I owed that to him. He made my career.”

Fisher became one of the “Roosa Boys” (although women were

## Profile

included in the group), specializing in fixed-income investments and foreign exchanges. Former Federal Reserve Board Chairman Paul Volcker also had been a Roosa Boy, and because of this connection he and Fisher have remained close friends.

In 1977, Roosa “loaned out” Fisher to work as an assistant to the secretary of the Treasury. President Jimmy Carter had asked Roosa to serve as secretary of the Treasury. Roosa said he couldn’t do it and told Fisher, “I am sending you instead to work as assistant to the secretary. I want you to learn how governments can screw up the bond markets.”

Fisher returned to Brown Brothers and New York in 1979. He recalls taking his 3-year-old son on the Staten Island Ferry to see the Statue of Liberty, and thinking as he looked at the Manhattan skyline, “I will never change this place. It is already established. I ought to go to a place with my children and my wife where I might conceivably have an impact and be part of something that has a future, not just a past.”

He chose Dallas, where his wife had previously lived, and persuaded his employer to establish a Dallas office. In 1987, he started his own investment advisory firm, Fisher Capital Management, and throughout the 1990s maintained a fairly high profile in Dallas, accepting appointments to all manner of boards and commissions. He was even talked into running for the U.S. Senate in the 1994 Democratic primary against the politically connected Jim Mattox.

“Beating Jim Mattox was one of the worst things that ever happened in my life, because I ended up being the candidate to run in the general election,” Fisher said. His opponent was Kay Bailey

Hutchison, a personal friend, who won. “The process of politics is not something I am good at. Kay was much better than I was.”

Fisher’s father-in-law and “best friend” — the now deceased U.S. Rep. Jim Collins of Dallas — was a conservative Republican, but Fisher served as deputy U.S. trade representative under President Bill Clinton, a Democrat. Today he is careful to say, “I cannot have any politics as a central banker.”

He sold his interest in his investment company in 1997 when he was appointed deputy U.S. trade representative overseeing the implementation of the North American Free Trade Agreement (NAFTA). His fluent Spanish came in handy in negotiations with Mexican counterparts. “I have a special spot in my heart for the Mexicans,” he said, “but that didn’t make me any less tough a negotiator.”

He was working as vice chairman of Kissinger McLarty Associates, an international consulting firm chaired by former Secretary of State Henry Kissinger, when he was appointed president of the Federal Reserve Bank of Dallas on April 4, 2005. The Fed position came open when Robert D. McTeer resigned to become chancellor of the Texas A&M University System.

At the time, Ray Hunt, son of oil mogul H.L. Hunt, was chairman of the board of the Dallas Fed, and he and Fisher served together on the board of EDS Corp. and had been friends for years. “I got a call from him one day, and he asked me about being president of the Federal Reserve Bank of Dallas,” Fisher said. “I hadn’t thought about it. So I said do you think it’s a good idea, and he said yes.”

Fisher is a realist when it comes to the problems facing the United States, but he also remains an optimist, largely because of how far he has come.

“Remember, I am the son of immigrants, and I am a big believer in the way this country works,” he said.

“We will find a solution. I do not despair about the United States.”●

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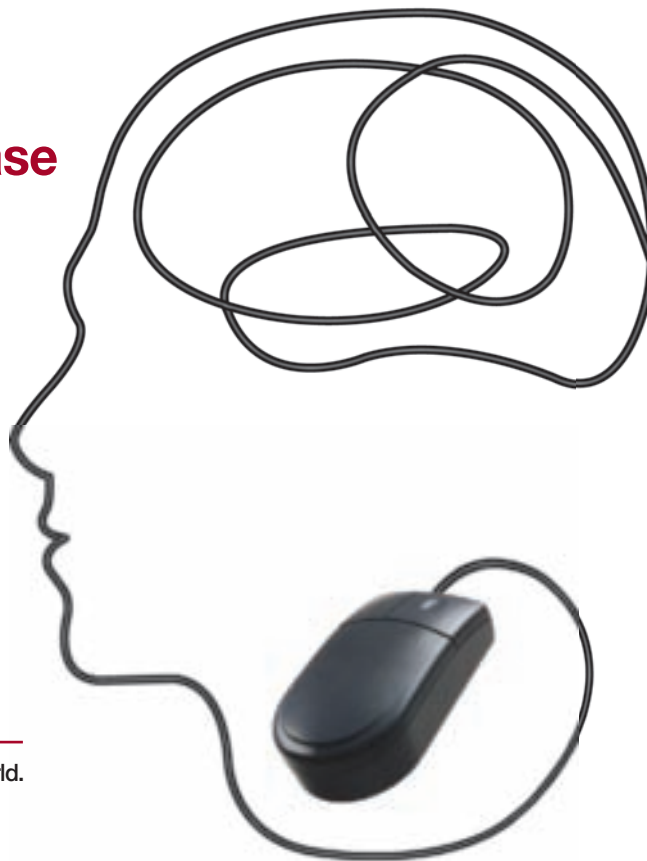
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metrics and follow-through. ... When I think about culture-building and leadership, one of the phrases I use more and more as I get older is: 'Intentionality rules.'"

The same concept can be applied to work-life balance, Thiry added. "If you do not bring the same type of analytical rigor to engineering your life as you do to engineering a factory or a cost structure or a promotional strategy, then you will almost certainly fail. ... So many people get sucked into the abyss, where they're working too much and experiencing too much ad hoc stress, because they've not brought the same intellectual rigor to evaluating the engineering of their life that they have to their business problems. And then once they get married and start having kids, they can never quite catch up."

In a subsequent Q&A session, the two CEOs fielded questions from alumni on subjects ranging from work-life balance — Donahoe said he and his wife, Eileen, now U.S. ambassador to the United Nations Human Rights Council, officially "canceled" their social life for a few years while their four children were young — to the challenges of transitioning from consulting to line management. When asked how they find time to reflect, both men said they value the insights gained through journaling.

Donahoe and Thiry's keynote program was the first reunion event ever organized in conjunction with the business school's Center for Leadership Development and Research. Founded in 2003, the center provides students with opportunities to learn business leadership skills through regular courses, executive challenges, online resources, and speaker series. ●

along with other claimants. In repo transactions, party A owns the security and can immediately sell if B cannot buy it back.

"The repo market seemed to be deposit insurance for people with hundreds of millions to invest. It gave strong protection," he said, and "it scaled, unlike regular banking that relies on small depositors." It therefore grew to "\$12 trillion with some double counting over the course of two decades."

Withdrawal of large deposits, of course, is where the system begins to unravel. "If Goldman Sachs pulls out, everybody will know they took their cards and left the table. That's the danger of this high-stakes game," he said. "The ability to sell a security depends on not everyone wanting to do it at the same time."

While some economists advocate total revelation of information on the assets within a security, Holmstrom doubts that full transparency will work because buyers and sellers seek investments for which they don't need to invest time and money to fully analyze information. He points to research by George Akerlof on "lemons" for which Akerlof shared the Nobel Prize. In used car auctions, Akerlof showed that people are more willing to bid and will pay more if there is no time to examine the cars beforehand. They fear they will be stuck with a lemon because others with more knowledge will bid on the better cars.

"It sounds very trivial, but it has profound implications for markets," Holmstrom said. "It even happens in fruit markets. If you come late in the morning and you know the bags of fruit were inspected by other buyers, you ask, 'Why are these bags left?' That's why I think it's a knee-jerk reaction for people to say we should have full transparency." ●

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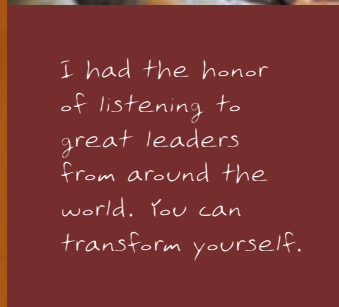
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# Supply Chain Master

**Hau Lee** links theory and practice, which draws a corporate fan base. He even creates businesses to solve the problems his research uncovers.

by *Maria Shao*

**I**N 1972, HAU L. LEE, a Hong Kong University student and son of a construction foreman and a homemaker, won a scholarship for an unusual course of study. He would spend 4½ months on a passenger ship. On the World Campus Afloat, Lee and other international students journeyed to countries rich and poor, including the United States, Japan, India, Sri Lanka, Indonesia, Ghana, South Africa, and the Fiji Islands. While at sea, they took classes on subjects such as economics and geography. While docked, they visited museums, universities, and other sites in 13 countries.

It was an eye-opener for the 19-year-old Lee. He had never been outside the British colony, and his family could never have afforded such a trip. “I had just finished freshman year and was immediately thrown into this opportunity to see what the world was like. That helped me to always remember that the world is global. It planted the seed for me to have a global interest in business,” recalls Lee, now a professor at the Graduate School of Business.

He has been studying — and explaining — the global economy from a front-row seat ever since.

Today, the Thoma Professor of Operations, Information and Technology is considered by some the world’s foremost academic expert on global supply chain management. Lee, age 57, is an authority on how businesses can gain advantage by strategically managing their supply networks, which include the behind-the-scenes flows of materials, information, and money needed in producing goods and services.

At Stanford since 1983, Lee has played a major role in the birth of modern supply chain management. His key contribution: promoting a holistic perspective on supply chains that are complex and global. It’s an integrated view that’s highly relevant to today’s interconnected economy, where outsourcing and offshoring are the norm.

An energetic, amiable man who was once a competitive bridge player, Lee says modern supply chain management is all about the “three M’s — multiple flows, multiple companies, and multiple disciplines.”

Lee’s signature idea is the “bullwhip effect,” a concept he co-developed in the 1990s, which has become a basic tenet in both academia and industry. When a person cracks a bullwhip, the small movements at the wrist produce huge waves at the other end of the whip, which describes how information on demand becomes increasingly exaggerated and distorted as it moves up the supply chain from customer to manufacturer to supplier, driving up costs and hurting efficiency.

By most accounts, Lee has been unusually successful at linking theory and practice. “Very few academics have that talent,” says Chung-Yee Lee, chair professor of industrial engineering and logistics management at the Hong Kong University of Science and Technology.

Many companies, including Cisco Systems, Microsoft, and Safeway, are among Hau Lee’s fans, collaborators, research subjects, and consulting or training clients. He even spent a sabbatical year working full time at Hewlett-Packard, and he founded the Stanford Global Supply Chain Management Forum, a leading academic-industry consortium that promotes research and collaboration. Although he is not an engineer, Lee is held in such high regard by the profession that he was selected to be a member of the prestigious National Academy of Engineering.

“Without exaggeration, he is the father of supply chain management. While the term was used earlier by others, he is the one who gave the identity and validity to the new field,” says **Seungjin Whang**, a close collaborator of Lee’s and coauthor of the bullwhip effect who is the Jagdeep and Roshni Singh Professor of Operations, Information and Technology at the business school.

In decades past, supply chain management focused more narrowly on managing manufacturing. Product design, logistics (meaning transport and warehousing), distribution, retailing, and recycling or product disposal were examined separately. In the early 1990s, Lee and others began espousing an integrated view of functions in the so-called “value chain” of economic activity.

The research and case studies Lee has developed and taught cover seemingly every aspect of managing global



*Hau Lee demonstrates how a small movement of the bullwhip's handle creates large waves at the tip.*

supply networks. His case studies, for example, have examined HP's past global inventory problems with inkjet printers; Cisco's global collaboration in developing and outsourcing production of a new telecom router; Starbucks' "green" coffee-buying practices; Zappos.com's offerings of a wide selection of shoes and strong customer service; Renault's optimization of customs and duties in developing economies; and IDS Group's "value chain logistics" in distributing its customers' goods throughout Asia.

Lee's work emphasizes the importance of information sharing and collaboration. "The major change was an increased understanding that the way a company performs is also very much determined by its suppliers and customers," says Jan C. Fransoo, professor of operations management and logistics at Eindhoven University of Technology in the Netherlands.

Adds Corey Billington, former Hewlett-Packard vice president of supply chain management: "Hau has been instrumental in pioneering the view that the world is a connected place — and that we stand to gain more from collaborating than fighting. His biggest contribution is to create an analytical framework and context to allow companies to thrive in a 'flat' world." Billington, cofounder of consulting firm e3

Associates, has worked extensively with Lee and is a former professor of operations management and procurement at the IMD business school in Switzerland.

**L**EE GREW UP under modest circumstances. But he did well enough academically to land at the elite Queen's College for boys, the first secondary school founded in Hong Kong by the British colonial government. He went on to Hong Kong University, graduating in 1974 with a bachelor's degree in economics and statistics. Lee pursued further studies in England, where he earned a master's degree in operational research from the London School of Economics in 1975. He later received master's and PHD degrees in operations research from the Wharton School at the University of Pennsylvania.

After getting his doctorate in 1983, Lee received job offers from numerous U.S. business schools and one engineering school — Stanford's. He says he took a "risk" in joining Stanford's faculty of industrial engineering and engineering management. But, he adds, "I thought since I had never been an engineer, I needed to know something about technology. I wanted to learn how technology and business interface." Ultimately, Lee received an endowed chair in engineering and began teaching in Stanford's business school in 1998. He moved full time to the business faculty in 2002.

A sabbatical from Stanford in 1989–90 proved to be a key turning point. He made the unusual choice, for an academic, of going to work for a company. HP's central manufacturing operations provided a real-world experience that helped Lee "recognize that the supply chain is holistic," he says. "It's not just solving a distribution or a manufacturing problem."

In the classroom, Lee's energy and theatrical flair are obvious — not surprising for someone who has taken singing lessons and enjoys watching musicals. He bobs, cracks jokes, diagrams ideas on the board. He has worn Crocs to class when teaching about the maker of the brightly colored, whimsical foam shoes. Students named him winner of the MBA Distinguished Teaching Award in 2007.

Colleagues also enjoy Lee's presence. "Hau is a gentleman and a scholar," says Billington. "Of course, he's a brilliant scholar. [But] there are a lot of smart people, some of whom you wouldn't care to have dinner with."

Today, Lee lives in Silicon Valley with his wife, Lyn, whom he first met in Hong Kong. Like him, she pursued graduate studies at the



*A 19-year-old Lee got his first look at the world aboard a ship that served as a floating campus taking students to 13 countries. The experience fostered an interest in global business.*

BOTTOM PHOTO COURTESY OF HAU LEE. TOP PHOTOS BY FREDERIC LARSON

University of Pennsylvania. They married in Philadelphia, where Lee became a Christian, baptized Jan. 1, 1978. They have two daughters, one a new graduate of Stanford and the other beginning her sophomore year at the school.

**S**OME OF LEE'S IDEAS have become basic principles in supply chain management. He is cited most often for his work on the bullwhip effect, a phenomenon that has bedeviled companies in many industries. His work sheds light on the causes and effects of demand information being amplified as it is conveyed upstream from customer to retailer, distributor, manufacturer, and suppliers. People at each level distrust the information they are receiving, so they tend to over- or under-order. This can lead to excessive inventory, even more inaccurate demand forecasting at a higher level, products being out of stock, and too little or too much production capacity.



*Hau Lee has lunch with students at Heshan No. 1 school in Guangdong Province while accompanying MBA students on a study trip to China. Lee estimates that about half his work relates to China, the manufacturing center of the world.*

Lee and two Stanford colleagues — Whang and V. “Paddy” Padmanabhan (now at INSEAD-Singapore) — published a paper in 1997 that analyzed the bullwhip effect and suggested how to counteract it. A subsequent bullwhip paper was voted in 2004 among the 10 most influential in the history of the supply chain journal *Management Science*.

The three reached their insights after interviewing companies where they heard many stories of missed demand forecasts. At Procter & Gamble, maker of Pampers diapers, managers complained that while babies used the disposable diapers at a steady rate, orders showed increasingly wide swings as they moved up from consumer to retailer, distributor, P&G, and P&G’s materials suppliers. P&G employees described the problem as a bullwhip, and the scholars picked up on the term.

Lee says the contribution he and his colleagues made was to “identify” and “explain” the bullwhip effect as a “systems problem,” reflect-

ing ineffective incentives and measures of performance. They were the first ones “to use simple models to explain why things happen this way and to illustrate the fact these things were happening because of rational decision-making.”

The phenomenon is common in many industries but varies widely, Lee says. Researchers normally measure disparity between actual demand and orders in standard deviations. This “bullwhip ratio” (defined as the standard deviation of orders divided by the standard deviation of demand) can range from a fraction to double-digit figures, depending on such variables as the industry and stage in a supply chain.

Introducing the bullwhip effect in a recent class, Lee reached behind the lectern and pulled out a genuine leather whip. He asked: “Do we have anyone good at cracking the bullwhip?” One student, in bare feet and a T-shirt, ambled down to the front of the classroom to demonstrate. Crack! Crack! Guffaws and gasps all around from the 65 students. Lee then made his point: When you snap a bullwhip, you create small waves near the handle, which become large waves near the tip of the whip. Similarly, “a small hiccup is translated into a big swing” in market demand as you go farther upstream in the supply chain, Lee explained.

The class discussed the case of Italian pasta maker Barilla, which was being whipsawed by distorted demand information. Eventually, the company came up with a system to take over inventory management at a large distributor’s site. The lessons from Barilla, according to Lee: Don’t trust the information coming in. Find ways to collaborate. Use incentives to foster collaboration.

“The skills you learn in this class are quickly applicable to a lot of businesses. What we learned today, you could walk into a company and show how to cut inventory costs,” declared **Amos Underwood**, MBA Class of 2011, the student who cracked the whip. “It’s informative yet jovial,” he says of the course.

“He has real-life examples. He’s been around the block. It’s great to be learning from *the expert*,” added **Ashish Jhina**, also in the Class of 2011.

Another of Lee’s key ideas is “postponement,” a practice widespread in technology manufacturing today. Instead of making finished products ahead of time and stocking them in inventory (made to stock), a company produces a nearly complete “plain vanilla” version. Configuration and completion of the product are delayed, sometimes until an order is actually received (made to order). This can reduce inventory needs, make manufacturing more flexible and efficient, and improve customer service. But it also can require adopting a new product design mindset.

Lee has been advocating postponement in manufacturing since his sabbatical, when he helped HP’s inkjet printer division solve problems with excessive, mismatched inventory. The problems were worst in Europe, where the printers needed to be “localized” to meet unique needs in a dozen European countries. HP and Lee’s solution: build mostly complete printers at the factory and let local distribution centers add the power supplies, manuals, software, paper trays,



and packaging appropriate for each country. Thus, the “point of differentiation” and the “personality” of the product were postponed, Lee explains.

The HP experience taught Lee that design and manufacturing must work closely. That is, products should be designed not just for performance but for optimizing the manufacturing supply chain, a concept known as “design for manufacturability.”

With Lee’s input, HP’s inkjet group was able to cut its inventory investment by 18% and save tens of millions of dollars, recalls Billington, HP’s former vice president of supply chain services. In addition, HP adopted a “design for localization” strategy throughout its business. Lee continued to be affiliated with the company for a decade or so working on supply chain strategies.

**I**N 1995, LEE FOUNDED the Stanford Global Supply Chain Management Forum, so researchers and practitioners could collaborate and share ideas and best practices. As director, he makes pitches for grants, leads conferences, and comes up with ideas for research. Corporate members include Cisco, Dow Chemicals, HP, Intel, Safeway, and Toyota.

He also has cofounded software companies. After observing grocery chains struggling to forecast demand and replenish inventory, he cofounded Evant in 1994 to offer retailers software for managing multi-level supply chains. When some forecasts went awry because grocers made ad hoc pricing decisions, he and consultant Michael Neal founded DemandTec in 1999 to provide software for retailers and consumer goods makers to optimize merchandising and marketing. DemandTec’s technology correlates sales, demand, and other data to provide insights that guide pricing and promotion decisions. A retailer using the software might see that parents of newborns are less price-sensitive about diapers than parents of older babies, so it might price newborn diapers with higher profit margins than toddler diapers. DemandTec went public in 2007 and now has about \$80 million in yearly revenue from customers including Best Buy, Wal-Mart, Nestlé, and Procter & Gamble. In 2004, Lee and Neal started SignalDemand, a private company that sells software and services for “process” manufacturers, such as food makers.

In these companies, Lee generally has served as chief scientist by developing the theory and the math. “Early on, when you have a strategy in mind and know what values you want to add but haven’t figured out the models, he’s a wonderful guy to have at the table. He’s nimble and very pragmatic,” says Neal, chief executive of SignalDemand. Supply chain software often involves crunching many terabits of “dirty” real-world data from customers and suppliers, Neal says. “You need a lot of mathematical horsepower to cleanse the data. Solving



“You need a lot of mathematical horsepower to cleanse the data. Solving those problems is his strength. Then doing something useful and productive with that data is how he excels.”

those problems is his strength. Then doing something useful and productive with that data is how he excels.”

As a supply chain expert, Lee has a realistic perspective on a global economy in which developing countries are increasingly important. “These new economies are your suppliers. They’re your future markets. They’re an important source of innovation and new product design,” says Lee, who makes a dozen short overseas trips a year and has logged 2.5 million miles on United Airlines.

He estimates that about half his work, including teaching cases, relates to China, the manufacturing center of the world. He serves on the boards of two Hong Kong-based companies — Esquel, a producer of men’s premium cotton shirts with extensive operations in China, and IDS, the logistics services company operating throughout Asia.

Last year, Lee was a driving force in launching the Cisco-Fudan-Stanford Supply Chain Leadership Institute in China. After Cisco decided to open an executive education program for Chinese supply chain executives, Lee spearheaded Stanford’s winning bid to become

*Continued on page 35*

# GAME CHANGERS

**Key players in the realm of social games reimagine the digital horizon.**

by ROBERT D. HOF

Illustrations by **SEAN McCABE**

**T**HOMAS DUFF DIDN'T INTEND to build a huge criminal enterprise, even an imaginary one. But since joining *Mafia Wars*, the online game he and about 20 million other people play, he has assembled a mafia of 220 players, many of them his real-life friends. They amass weapons, vehicles, and other virtual goods — often by spending real money on them — so they can rub out other mobsters to climb the game's endless levels. For the past year, he has played 20 minutes a day — OK, 45 minutes, he adds ruefully — because it's a fun way to stay in touch with far-flung friends. "Against my better judgment," sighs Duff, a software programmer for an insurer in Portland, Ore., "I'll probably keep doing it."

Thanks to fans like Duff, online games such as *Mafia Wars*, *FarmVille*, *Tap Tap Revenge*, and many more have quickly become a staple of internet activity alongside Google's search engine, Amazon.com's superstore, and Yahoo's portal. They're called social games because people play them with friends on social networks such as Facebook and MySpace, as well as devices such as smartphones. Many of the games were created by companies such as Zynga Game Network Inc. in San Francisco and Tapulous Inc. in Palo Alto that are funded, founded, or managed by Stanford MBAs and other Stanford grads.

On Zynga's *FarmVille*, the most popular social game, about 100 million players have created virtual farms as they repeatedly click objects on the screen to



**Eric Tilenius**, MBA '96, left, and **Ken Rudin**, MBA '94, are among the alums working for social games leader Zynga.

plant seeds and harvest crops. They don't necessarily compete with friends in real time or compete much at all. But in between calling clients or shuttling the kids around town, nearly 20 million players log in for a few minutes daily to fertilize friends' plots, exchange virtual gifts, and post messages to each other. *Tap Tap Revenge*, a series of games from Tapulous, allows people to compete with friends to see who can most skillfully tap buttons on their iPhones to the beat of popular songs. More than 35 million people play — enough to persuade Walt Disney Co. on July 1 to pay a reported \$35 million to buy the company, cofounded by **Andrew Lacy**, MBA '05, and **Bart Decrem**, JD '92.

All this fun and games may look like a colossal waste of time. But by adroitly playing on people's emotional needs, from ego gratification to simple human interaction, social games are becoming a colossal business. With about 1 billion players worldwide, they've captured tens of millions of fans who've never touched a video game, including women and older men. "The key reason social games are so successful is that on Facebook you can connect and play with your friends," says **Haim Mendelson**, the GSB's Kleiner Perkins Caufield & Byers Professor of Electronic Business and Commerce, and Management.

Just as important, players are spending big bucks in social games. They're usually free to play, but some people spend 25 cents to a few dollars apiece on virtual strawberry plants, poker chips, submachine guns, and myriad other ephemera. Why? To enhance the game experience and show off their avatar or game status. It's not so different from displaying their real-life status with clothes, watches, or cars — but at far less cost. And while it may seem strange to pay for virtual goods, they're no less real than, say, songs bought on iTunes.

In the United States alone, sales of virtual goods are expected to hit \$1.6 billion this year, according to "Inside Virtual Goods: The Future of Social Gaming 2010," a recent report by consultants **Justin Smith**, BS Computer Systems Engineering '04, and **Charles Hudson**, MBA '05, AB Economics and Spanish '00. More than half those revenues will come from social games, the rest from online virtual worlds such as Second Life, IMVU, and Cyworld in Korea. Worldwide, virtual goods are even bigger, by various estimates a \$3 billion to \$6 billion market, dominated by Chinese companies such as Tencent Holdings.

*"The key reason social games are so successful is that on Facebook you can connect and play with your friends."*

— **HAIM MENDELSON**, PROFESSOR OF ELECTRONIC BUSINESS AND COMMERCE, AND MANAGEMENT AT THE GSB

In fact, Asian internet companies paved the way for social games. That's partly because online activity there always was focused more on social interaction than on e-commerce or information seeking. But rampant software piracy in China, in particular, also meant there was little money to be made selling traditional video games. So game designers chose to make internet games supported by virtual goods. "The only way you can make money is to do them online," venture capitalist **Richard Lim**, MBA '88, managing director at GSR Ventures, recently told *Stanford Business*.

A far cry from classic one-person shoot-'em-up and adventure



**Andrew Lacy**, MBA '05, cofounded Tapulous, maker of Tap Tap Revenge. The company recently sold for \$35 million.

games played on consoles such as Microsoft's Xbox and Sony's PlayStation, social games borrow elements from two kinds of online games that emerged in the late 1990s. One is casual games such as *Solitaire* or *Tetris*, which are simple and quick for individuals to play in spare moments. The other is so-called massively multiplayer online games such as *World of Warcraft*, in which people create avatars, or animated on-screen representations of themselves, and go on elaborate group adventures. Social games also draw inspiration from the life-simulation personal-computer game *The Sims* and from virtual worlds where people socialize online using avatars.

It was only about three years ago, when U.S. game designers started adapting parts of those games to be played on fast-growing social networks and Apple's iPhone, that it became apparent social games were on the rise. Game companies spread their offerings like viruses by cleverly hijacking Facebook connections and exploiting social obligations among friends. In Playfish's popular Facebook game *Restaurant City*, for instance, players run an eatery that "employs" their friends, who must be fed every few hours to prevent them from striking. "Games have become increasingly social," says Kleiner Perkins partner and Zynga director **William "Bing" Gordon**, MBA '78.

The addictive appeal of social games has helped create some of the fastest-growing companies in business history. The games can be created cheaply in just a few months, compared with \$50 million and several years for some traditional video games. And while social games must be updated constantly, they generate recurring revenue streams. "It's really changing the whole nature of gaming, from a product to a service," says Zynga general manager **Eric Tilenius**, MBA '96.

Just three years after Zynga began, for instance, its games are played by more than 230 million people a month, about 52 million every day.



## GAME CHANGERS

Revenues are expected to top \$450 million this year, and its staff has more than tripled to nearly 1,000 people in the past year. A regulatory filing in April implied that the privately held company is valued at \$4.6 billion. Kleiner Perkins general partner L. John Doerr recently called Zynga the VC firm's fastest-growing investment ever, placing it ahead of Google, Amazon.com, and Genentech.

The rapid rise of social games has taken even their creators by surprise. Lacy, Tapulous' cofounder and chief operating officer, says he didn't intend to build a games company. When it began in January 2008, he figured an iPhone chat application would be the ticket to riches. But Tap Tap Revenge took off, capturing 1 million players in less than three weeks, and Lacy never looked back. Tap Tap Revenge's social appeal is increasingly key, judging from love notes from fans tacked up on walls at Tapulous' Hamilton Avenue storefront headquarters. One reads: "Your game is great because it gives me a getaway, and I make friends."

**N**OW, THE SOCIAL GAMING game is changing just as rapidly as it emerged, presenting new challenges to leaders and upstarts alike. For one, it's becoming apparent that the larger game makers will win the lion's share of the business. That's partly because the more people who play a game, the more it's likely to draw in those people's friends, in a virtuous cycle. Moreover, companies that run a lot of games can cheaply promote new games to players of existing games.

That last point has become especially critical since late last year, when Facebook suddenly stopped allowing so many public notifications of game activity. Many Facebook members viewed them as spam, the internet equivalent of junk mail. (About 6 million folks became so fed up with messages about friends reaching the next level of a game that they joined a group on Facebook called "I dont [sic] care about your farm, or your fish, or your park, or your mafia!!!") Facebook's move has made it harder to attract new players and even keep them, so many social games have lost millions of players in recent months.

All that has intensified competitive battles, which have spilled into the courts. In April, Burlingame-based CrowdStar Inc., creator of the popular Facebook game *Happy Aquarium*, sued WonderHill Inc. of San Francisco, producer of *Aquarium Life*, for alleged copyright violation and unfair competition. CrowdStar's suit cited the similarity of its rival's features to its own, including a "distinctive mating dance to a backdrop of hearts and romantic music."

More often, social-game companies are doing their own mating dances to grab new talent and games to keep growing. Zynga has snapped up six social-game companies in the past year. Mountain View-based Playdom has bought seven since March. As a result, a few companies — Zynga especially, along with Playdom, CrowdStar, and Digital Chocolate — have started to pull away from the pack. That's making it harder for smaller companies to compete and cooling VCs' ardor for funding three Stanford students hoping to create the next *FarmVille* in their dorm room.

At the same time, the entry of titans such as Disney, Electronic Arts, and Google is rapidly tearing up the playing field. EA bought Playfish



**Trip Hawkins**, MBA '78, the founder of Electronic Arts, now offers social games through Digital Chocolate.

for \$275 million late last year. In late July, Disney acquired Playdom, whose cofounder is **Ling Xiao**, MS Computer Science '07, for up to \$763 million. Google reportedly invested \$150 million into Zynga in July and is believed to be talking with several social gaming companies about participating in a broader social networking service the search giant intends to create. And a company founded by MySpace cofounder and former CEO Chris DeWolfe in March bought Mindjolt Games, a site offering 1,300 casual and social games, with plans to create a global powerhouse in social games.

*"Analytical rigor is increasingly an important part of social games."*

— **CHARLES HUDSON**, MBA '05, SOCIAL GAMES CONSULTANT

All those developments are requiring social-game companies of all sizes to craft new business strategies. "The landscape is constantly changing, so you have to adapt to it," says Electronic Arts founder **William M. "Trip" Hawkins**, MBA '78, now founder and CEO of mobile and social game creator Digital Chocolate, based in San Mateo. Indeed, social game experts say staying ahead of the competition in social games from here on out will turn on the business skills of MBAs populating many of the companies. In particular, they need to figure out the best combination of game techniques, such as competitions, rewards, and levels of achievement, that gets players hooked and then keeps them coming back. "Analytical rigor is increasingly an important part of social games," consultant Hudson says.

Zynga, for instance, obsessively analyzes the impact of various

*“The world does not need the next Mafia Wars. The opportunity lies in learning the principles of social gaming and applying them to new realms.”*

— **REUBEN STEIGER**, GAMES & SOCIAL MEDIA CONSULTANT

game mechanics on player behavior, constantly adjusting the games to get people to play more often, spread the word to friends, or buy virtual goods. It tracks about 40 billion player actions every day and conducts about 1,000 experiments on new features each quarter. “My job is to make sure we add science to the art,” says **Ken Rudin**, MBA ’94, Zynga’s general manager for analytics.

As important as that science is to game makers, venture capitalists and entrepreneurs now spy a new opportunity to leverage it: They’re borrowing the underlying mechanics of social games, such as rewards and contests, to turbocharge other kinds of online activities. Foursquare Inc., for instance, aimed to offer a service to make it easier for people to explore a city and learn about it from friends. “We needed a motivation for people to check in to places” with their mobile phones, says cofounder Naveen Selvadurai. Adding game mechanics, such as badges and the right to be “mayor” of a cafe or store, did the trick. Now more than 2 million people, doubled from three months earlier, regularly check into their favorite places a total of a million times a day.

In a sense, Foursquare and others are putting a 21st-century spin on such time-tested marketing techniques as frequent flier miles and S&H Green Stamps. **Tristan Walker**, MBA ’10, the company’s director of business development, says Foursquare’s ability to reach people very close to potential points of sale in the physical world makes the service attractive to brands. “Foursquare can lead consumers to

*Tristan Walker, MBA ’10, directs business development for Foursquare.*



do things,” says Walker, such as buying a Frappuccino at Starbucks, which offers specials on Foursquare, or buy carrots branded as FarmVille at 7-11.

If an event in Menlo Park in June called “Metagaming and the Gamification of Life” is any indication, turning everything online into a game will be one of Silicon Valley’s next hot pursuits. More than 150 people, mostly entrepreneurs, showed up as early as 7:15 a.m. to learn how to apply game mechanics to other businesses, then rushed up to panelists afterward with pitches and questions. “The world does not need the next *Mafia Wars*,” says Reuben Steiger, a games and social media consultant and founder of Virtual Greats, which helps celebrities brand themselves in social networks and virtual worlds. “The opportunity lies in learning the principles of social gaming and applying them to new realms.”

*“The much bigger market is taking this to real life.”*

— **TIM CHANG**, MBA ’01, VENTURE CAPITALIST

Even to the corporate world. Seriosity Inc., a company cofounded by **Byron Reeves**, the Paul C. Edwards Professor in the Stanford Department of Communication, is developing a social game for Facebook that will tap into data from people’s utility smart meters and give them points for saving energy. “We’re using social games to change behavior,” says Reeves, coauthor of the 2009 book *Total Engagement: Using Games and Virtual Worlds to Change the Way People Work and Businesses Compete*. Some startups are turning work itself into a sort of game. CrowdFlower, founded by CEO **Lukas Biewald**, BS Math ’03, MS Computer Science ’04, is paying about 100,000 people in virtual currency, such as *FarmVille* cash, for quick tasks such as removing spam comments from a blog.

Social game mechanics hold promise for doing social good as well. Norwest Venture Partners’ **Tim Chang**, MBA ’01, is an investor in social-game companies Playdom and ngmoco as well as Lumos Labs Inc., which makes games to improve memory and attention. Chang is looking to fund companies that use game mechanics to address health care problems. For example, consumers who agree to reveal their grocery purchases could get points for buying healthier food and cash them in for health insurance discounts. He’s not alone. The Health Games Research program, directed by **Debra Lieberman**, PHD Communication ’86, a communication researcher at the University of California at Santa Barbara, is funding research to create games that motivate players to improve their health habits. “The much bigger market is taking this to real life,” Chang says.

Some skeptics wonder whether there is a limit to how many activities can be made into a game. After all, most people probably prefer to eat a Big Mac than be paid not to, especially in imaginary money. But Gabe Zichermann, author of the 2010 book *Game-Based Marketing: Inspire Customer Loyalty Through Rewards, Challenges, and Contests*, thinks we’ve seen only the beginning of the possibilities. “*FarmVille* and Foursquare have opened people’s eyes to the potential for many things in life to be made more fun,” he says. ●

*Former BusinessWeek Silicon Valley bureau chief Robert D. Hof is a writer in Palo Alto.*



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HROUGH THREE DECADES OF TEACHING and writing about power, **Jeffrey Pfeffer** has emphasized a pithy but potent concept: Politics often trumps performance.

Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior at the Graduate School of Business, can tell countless stories of networkers and self-promoters who shot to the top while others went nowhere or lost positions despite laudable achievements. Many of those stories punctuate his new book, *Power: Why Some People Have It — and Others Don't*.

“It’s a book about surviving and succeeding in organizations,” says Pfeffer, who has taught these lessons to students since creating a course called *Power and Politics in Organizations* (now renamed *The Paths to Power*) at the business school in 1979. Now he’s spreading the message to a wider audience.

“I wrote the book for three audiences,” Pfeffer said.

“First of all, people who work in organizations and want to be more successful than they currently are need to understand the rules of the game, which are not necessarily the rules they are told.

“Number two, I wrote it for people who’ve already become powerful and want to maintain their power. They need to understand the potential problems of having power, and why and how people lose it.

“Third, the book is for people who are just interested in understanding the games that go on inside of companies so that they can become more astute observers of the organizations they deal with on a daily basis.”

Pfeffer starts his guide to power by explaining why people should want it: Power can improve your health and increase your wealth, and it’s necessary to get things done.

Once motivated to pursue power, he says, people need to overcome the obstacles to getting it. Atop the list is the belief that good work is the key to success. Competence is overrated, Pfeffer says, as the titans of the financial industry have shown in recent years. “Great job performance by itself is insufficient and may not even be neces-

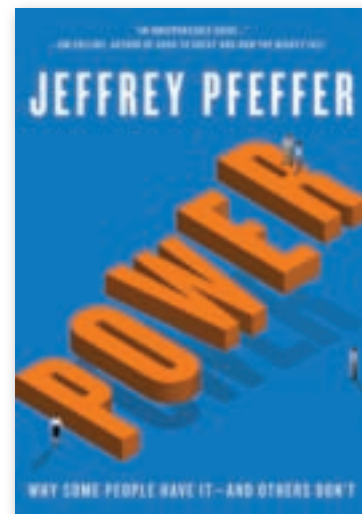
ILLUSTRATION BY RICHARD VIA



# Cod Liver Oil for Leaders and Wannabes

Jeffrey Pfeffer explains why you should want power, how to acquire it, and how to keep it from overpowering you.

by Rick Nobles





sary for getting and holding positions of power.”

Another obstacle is relying on the ubiquitous leadership literature written by people who tout their own careers as models but “gloss over the power plays they actually used to get to the top.” These leaders’ ability to promote themselves as noble and good is the reason they reached high levels in the first place, Pfeffer says. Their advice could be accurate, “but more likely it is just self-serving.”

Finally, people handicap themselves by choosing not to risk failure. People want to feel good about themselves, Pfeffer says, and “any experience of failure puts their self-esteem at risk.” But, he emphasizes, the only way to master the power game is to practice.

Pfeffer’s students get plenty of that. Through the years, he has added exercises, projects, and lots of coaching to teach them how to get noticed, earn the favor of their bosses, build social networks and reputations, and act and speak with power. The work doesn’t come naturally to most of them.

“This class is like cod liver oil,” Pfeffer says. “They understand that it’s good for them. But they are uncomfortable — many of them, not all — with the ideas. They believe the world is a just and fair place, and if they work hard and do a good job they will be successful.”

Pfeffer says that older, more experienced students swallow his medicine more readily than younger ones and that each generation of students finds it more bitter than the previous one.

“In general, the current students are harder to teach this material to. And that is because the current generation of students ... has been raised in a much less competitive environment,” he says, citing the example of swim meets in which every swimmer gets a ribbon.

“We live in a world in which people believe, because of social media and because of a bunch of other stuff, that hierarchy is dead and that everybody’s cooperating with each other,” Pfeffer says. “And what I would point out to people is that it is still the case that there’s only one CEO, it is still the case there is only one president, there’s only one school superintendent, there’s only one congressperson from each district, there’s only one dean of Stanford business school.”

Despite the challenges, Pfeffer has changed the outlook of many starry-eyed millennials. “In some instances there’s a true transformation during the course of the class,” he says. After implementing his advice through exercises and projects, students often find that they like doing it, they are good at it, and “it’s not as hard as they thought.”

**Jenny Parker**, MBA ’07, validated his point. She was skeptical when Pfeffer told her that asking someone for a favor could give her power. But when she tried it, she says, “they immediately asked for something in return.”

“I have fulfilled the prophecy that he preached,” she said. “I came back eyes wide open.”

People who have taken his class will find plenty of new information in the book, says Pfeffer, who has written two other books about power. “The class has changed a tremendous amount over the past 30 years.”

The book includes case studies Pfeffer has added to modernize the class. In the beginning, the cases were heavy with public figures such as former President Lyndon Johnson and Robert Moses, the



JEFFREY PFEFFER

New York parks commissioner who fashioned much of the city and surrounding area’s infrastructure. Pfeffer now uses more examples of regular people, such as marketing maven Keith Ferrazzi and former software executive Zia Yusuf, who reflect the cultural diversity of today’s MBA classes.

Many of the new examples are “stories that my former students have told me about how they use the material. It is relevant, I hope, to a wider range of people who can look at this book and say these are people like me. This isn’t some unusual politician who was probably born with some gift that I will never have.”

As an educator, Pfeffer chooses cases for their instructive value and is careful not to judge what people do with power. When Oliver North pulled his Marine uniform out of mothballs and stared down members of Congress during the Iran-Contra hearings while admitting — under immunity — that he had shredded documents, Pfeffer saw an example of someone speaking and acting with power, and used him in his book. “I’m not teaching business ethics,” he says.

He is similarly agnostic when he tells leaders not to fret about putting their careers ahead of their organizations, “because there is lots of data to suggest that organizations don’t care very much about you.”

But anyone who follows Pfeffer’s blogs, magazine essays, or his books on human resource management knows he’s comfortable lecturing corporate leaders for acting against the long-term interests of shareholders, employees, or customers. “We all put on different hats,” he says, acknowledging the distinction in how he writes about different subjects. “If you eat a meal, you don’t eat all steak or eggplant or whatever your favorite food is. Most people will eat a buffet.”

## “People believe because of social media ... that hierarchy is dead. ... It’s still the case that there’s only one CEO.”

So what would Pfeffer like to see people do with power?

“I would certainly like to have our leaders in corporations make decisions based on the facts as opposed to ideology, belief, what everybody else is doing, what some consultant has sold them,” he says. “I’ve said that if doctors practiced medicine like managers practice management, most of them would be in jail. You would not tolerate the kind of sloppy thinking that I see on a regular basis inside business organizations.”

The problem, Pfeffer says, is that corporate leaders don’t believe that management is a science and prefer to use their intuition. The solution may be for people who agree with Pfeffer to pursue power for themselves.

They must begin that process by looking within, he says. “Stop waiting for things to get better or for other people to acquire power and use it in a benevolent fashion to improve the situation. ... It’s up to you to build your own path to power.” ●

Watch Jeffrey Pfeffer explain why BP’s CEO Tony Hayward relinquished his power when he apologized for the Gulf of Mexico oil spill. [Bizonline.Stanford.edu/power](http://Bizonline.Stanford.edu/power)



# Media Money Can't Buy

Authors Jennifer Aaker and Andy Smith explain how to harness the power of social media to achieve social change.

by Margaret Steen

A SOCIAL MEDIA CAMPAIGN that goes viral, grabbing the attention of thousands or even millions of people at a very low cost, is the dream of many social entrepreneurs. But clearly not every Facebook page, website, or tweet succeeds in this way.

“You can’t use social media effectively unless you know how to capture people’s emotions,” said **Jennifer Aaker**, the General Atlantic Professor of Marketing at the Graduate School of Business. “People only advance the message about something they care about.”

Aaker studies what motivates people and how to engage their emotions. She and her husband, startup advisor and tech marketer **Andy Smith**, have put this research to work in a book, *The Dragonfly Effect: Quick, Effective, and Powerful Ways to Use Social Media to Drive Social Change*.

The book, to be published in September, was inspired by the story of Sameer Bhatia, a Silicon Valley entrepreneur who was diagnosed with leukemia at age 31. He needed a bone marrow transplant but couldn’t find a match because so few potential donors were South Asian. (A match is most likely when the donor and patient are of the same ethnicity.) His friends used social media to ask members of the tight-knit South Asian community to register as potential donors.

After 11 weeks of efforts that included 480 bone marrow drives and 150,000 visitors to websites about Bhatia and Vinay Chakravarthy, another member of the South Asian community battling the illness, more than 24,000 possible donors registered. One was a perfect match for Bhatia.

Ultimately, neither Bhatia nor Chakravarthy beat leukemia. But the newly registered donors also helped others: In 2008, 266 donors registered through the efforts of these men’s friends were matched to patients. The drive is a prime example of a successful social media campaign.

The title of *The Dragonfly Effect* comes from the fact that the dragonfly is the only insect that can fly in any direction when its four wings are working together. The dragonfly itself is a symbol of happiness, new beginnings, or change in some cultures. Drawing on research on hap-

ILLUSTRATION BY RICHARD VIA



piness and ripple effects from small acts that create big changes, the book provides a roadmap to show readers how to harness social media for impact. There are four “wings” of the Dragonfly Effect — focus, grab attention, engage, and take action — which guide readers toward the best strategy.

■ **FIRST WING: FOCUS** Concentrate on a single clear outcome rather than “thinking big.” The idea is to concentrate your resources on this. The book outlines several steps for doing this: Set a goal, break it into smaller sub-goals, decide how to measure success, and create a concrete, specific action plan you can revisit and use as a management guideline.

■ **SECOND WING: GRAB ATTENTION** Once you know what you want to do, you need to get your audience’s attention. Key tips: Be original, keep it simple, make it grounded, and use visual imagery.

■ **THIRD WING: ENGAGE** To “tee up” your audience to take action, get them emotionally involved in your cause. To do this, you need to understand what engages people. Stories and personal engagement are key. You should tell your story using a variety of media. For example, some people prefer Facebook to Twitter or email to blogs. Use these online connections to engage people in offline actions. Barack Obama’s 2008 presidential campaign was adept at using email and text messages to connect with supporters, and it also got some of those supporters to organize campaign events themselves.

■ **FOURTH WING: TAKE ACTION** Once you know what you want to accomplish and have engaged your audience, it’s time to get your audience to act in a way that makes your cause become its cause, usually by asking people to volunteer time, money, or both. It’s critical, particularly early on, that people get positive reinforcement; you need to give your audience feedback in real time reflecting its contribution.

“Research we’ve done suggests that you need to have all four of these things working in concert for maximum impact,” Smith said.

Aaker and Smith developed each wing using principles of design thinking, which Aaker describes as “a way of developing solutions by deeply understanding customers, their environment, and the problem they have first. It’s surprisingly inconsistent with the way many traditional businesses work.” In other words, it’s a way to build the right products, not just a way of making products look nice.

“Time and again, initiatives falter because they’re developed with the brand, organization, or cause — rather than individuals’ needs — foremost in mind,” Smith said. “Design thinking encourages a human-centric orientation, hypothesis testing, and frequent, rapid prototyping.”

Rapid prototyping is suited to social media. Traditional marketing develops a campaign based on insider preferences, capturing customer reactions weeks or months after its release for insight on how well it worked, said Smith, a principal of Vonavona Ventures, where he advises technical and social enterprises. He is a veteran of many startups, a former executive at Dolby Labs and Intel, and a guest lecturer at the GSB.

“Rather than over-planning, you can prototype and split-test very quickly, with dashboards to monitor results in real-time and deliver results much more quickly,” Smith said. Marketers can test two different tweets or two different landing pages, for example, and measure which one delivers more impact.

“There’s a real bias toward action,” Aaker said.

Two areas of Aaker’s research also informed the book. One, the ripple effect, is “the simple idea that small acts can create big change,” she said. In the case of a social media campaign, this means that something as small as one person’s Facebook post could, if done correctly, start a movement. The campaign to enlist bone marrow donors to save Bhatia is an example of this.



“Research shows that ripple effects result from small actions that have a positive, significant impact on others and over time,” she said. “When the action at the epicenter of the ripple effect is based on deep meaning, a multiplier effect can also occur, yielding additional value. Time can psychologically expand when people are doing something they love and the process of doing it makes them happy.”

A related idea is emotional contagion, the tendency to feel and be influenced by others’ emotions. It explains

why emotional appeals can lead to audience engagement.

“Researchers reveal that happiness really is contagious: People who are happy [or become happy] significantly boost the chances that their friends will become happy,” Aaker said. Furthermore, this effect can span two more degrees of separation, “improving the mood of that person’s husband, wife, brother, sister, friend, and even friend’s friends. Further, these contagious effects have a lasting impact.”

The concept of emotional contagion also underscores the importance of using social network campaigns for social good, which is “most often resonant with happiness and meaning,” Aaker said.

Campaigning for social good sounds like the goal of nonprofits, but Smith says the book has a decidedly broader audience. For-profit companies are increasingly using these strategies to engage employees and customers, either within the framework of a corporate foundation or corporate social responsibility office, or as a way to increase the appeal of their product by tying it to a social good. (A for-profit company could use some of the strategies simply to sell its products, though the campaign would likely lack the emotional connection that comes from helping a leukemia patient.)

“We define social good broadly, as something where significant benefit extends beyond you or the organization,” Smith said. “The more relevant the good is to what you do, the more customers are likely to reward you for doing it, through product choice or loyalty.” For example, a case study of Starbucks shows how the company reinvigorated its brand by becoming the world’s largest buyer of “fair-trade-certified” coffee — using a blog and Twitter to connect with its customers.

For many for-profit companies, the idea of doing social good is not so-called “green-washing” but “deeply embedded.” Tom’s Shoes, for example, “offers a symmetrical benefit: It gives away a pair of shoes to a person in a developing nation for each pair of shoes it sells.”

Promoting social good can be a helpful recruiting and retention tool. “People are becoming much more interested in joining companies because their values resonate with their own,” Smith said. “I experienced this for myself when I was at Dolby, when the human resources folks came to my corporate social responsibility team because candidates wanted to know more about how we gave back to the community. They’re also more likely to stay at a company if there’s a strategic philanthropy arm. You see greater retention and more excitement for working at that corporation.” Although the idea may not yet be widely accepted, he said, it is possible to create a business, rather than a nonprofit, that does good — and does well as a result.

“People don’t have to give something away for free to do good. The for-profit and nonprofit worlds are merging,” Aaker said. ●

Watch how Bhatia and Vinay Chakravarthy mobilized people through social media to help find bone marrow donors. [BizOnline.Stanford.edu/aaker](http://BizOnline.Stanford.edu/aaker)



# Srinivasan Measures What Consumers Want



*Professor Seenu Srinivasan talks with PhD students at the GSB in 1980.*

Paul Green of Wharton, of conjoint analysis, a term they coined in 1978 to describe a technique that allows companies to predict which, among several products or services with multiple attributes, customers are likely to select. They ask consumers to rank-order a list of product attributes such as price, size, safety, ease of use, durability, and then use selective paired comparisons of attributes to infer quantitative measures of importance.

So useful has the survey-based research approach become for product planning that every year brings more than 10,000 commercial applications. Conjoint analysis also is used in contexts broader than the term “marketing” suggests. It has been applied to determine preferences for health care facilities, methods of transportation, and even political candidates.

Srinivasan has written about strategic portfolio planning, market structure and segmentation, and brand equity. He also coauthored studies of salesforce compensation, which showed that more volatile industries

## He helps companies determine which bells and whistles will attract the most buyers.

HIS FIRST DOCTORAL STUDENT, Barnett Parker, calls him a “guru,” and the Pfeffer University professor doesn’t use the term lightly. Indeed, for **Seenu Srinivasan**, the Indian-born professor who has become a legend and a beloved mentor in the field of marketing science, the much-overused Sanskrit moniker seems particularly apt.

“He’s a great teacher, and of more than marketing. He’s influenced me more than almost anyone else in my life,” an admiring Parker shared with colleagues at a tribute to Srinivasan held in March at the business school, where the Adams Distinguished Professor of Management is retiring after serving on the faculty for 36 years. “He has an aura about him. And,” Parker said with a chuckle, “he’s the only person I’d consider flying out to honor at my own expense without a second thought.”

Parker is not alone in his sentiments. Srinivasan’s colleagues and students are as apt to call the prolific scholar a generous, loving father figure as they are to brand him a brilliant thinker and a stickler for detail. His interest in the well-being of others is reflected in his approach to marketing, which has focused on trying to understand consumer preferences. Skip the hard sell and the advertising spin, his long string of award-winning articles has advised. If you build it — just the way people want — the sales will come.

Srinivasan is a key architect, along with Professor Emeritus

should rely more heavily on salary in their compensation plans rather than commission. As salespeople face more stable, predictable markets, however, they will be more motivated by a higher percentage of commission and less straight salary.

Another of his models can help a manager figure out how much more the company will earn from investing in various kinds of branding activities. For instance, he and his coauthors estimated that in the Korean cellular telephone market, Samsung gained \$127 million dollars because of its increased brand awareness, improved perception of voice quality, and other factors. It’s a significant contribution in a field in which the best that most marketers offer is a measure of consumers’ image of a brand, not the dollars-and-cents effect of that image.

Born Venkataraman Srinivasan in a small town in southern India in 1944, Srinivasan was a Brahmin, an Indian of the highest caste that for centuries had been the administrative elite. The creation of the Indian republic unleashed resentment toward these former leaders and Srinivasan found himself the victim of a backlash of caste prejudice. Although he was a top student at his high school, he was denied entry into all engineering colleges in his native state of Madras (now called Tamil Nadu). Eventually, he was able to gain admittance to the Indian Institute of Technology, where he earned a degree in mechanical engineering and received a gold medal as the top student in his graduating class.

A Bombay engineering firm introduced him to production planning and management, which led him to enroll in industrial administration at Carnegie Mellon. He joined the faculty of the University of

Rochester and was recruited to Stanford by business school Professor **David Montgomery**. The GSB promoted him to full professor after just two years.

The marketing industry has showered Srinivasan with 22 awards and accolades, including the Parlin and Converse awards for outstanding contributions to research, and the Churchill Award for lifetime achievement.

“Seenu has won almost every major award the marketing profession can convey,” said his former roommate and frequent collaborator Allan Shocker, a professor emeritus of the University of Minnesota, yet he remains a “genuinely nice person. I’ve seen him critique others’ papers at conferences, for example, and he always takes care to do it in a way that’s not insulting. Rather, his comments, often phrased as questions, can be said to be educational.”

GSB marketing Professor **Jim Lattin** says Srinivasan created “an environment of collaboration” at the business school by turning numerous doctoral students into close research associates. As the director of the doctoral program from 1982 to 1985, he played a key role in having PHD candidates do more research and less structured coursework. Eight of his doctoral students have won top awards for their dissertations or dissertation-based papers.

**Oded Netzer**, PHD '04, Srinivasan's most recent doctoral student, gives one reason why: “When you speak with Seenu, you feel like he’s the smartest person around and you’re the second smartest. He leads you with, ‘What you probably meant to say was ...’ until you don’t know which idea was his and which was yours. Yes, you come out of the meeting feeling very intelligent.”



**Seenu Srinivasan**

Srinivasan's penchant for collegiality was also evident in the innovative course *Integrated Design for Marketability and Manufacturing*, which he co-created in 1991. For the past 19 years, courses that grew from that first course have trained Stanford engineering and MBA students to get beyond “gearhead” and “bean counter”

stereotypes and work together to create products that both suit the leanings of designers and make sense in the market. The course, designed with then GSB Professor **Bill Lovejoy** and engineering Professor **Dave Beach**, had competing teams of students get down and dirty building product prototypes and conducting conjoint analyses to assess the market share potential of different design ideas. Srinivasan stepped away from the course in 2001, and since then it has morphed into business school Professor **James Patell**'s *Design for Extreme Affordability* course under the auspices of the Hasso Plattner Institute of Design.

Srinivasan also is heavily involved in his native country. With his brother, Balachandran, an accounting professor emeritus from the Kellogg School of Management, he has served on the academic advisory boards of the Great Lakes Institute of Management in Chennai and the Indian School of Business in Hyderabad. He has been faculty advisor to the GSB's collaborative MBA course with the Indian Institute of Management Bangalore. In 2006, the Great Lakes Institute created the Kotler-Srinivasan Centre for Research in Marketing, named after him and Kellogg Professor Philip Kotler.

Retirement Srinivasan-style will include involvements both in India and Stanford. “I plan to do some research and consulting, teach in a couple of Indian MBA programs, and also become a student again, attending some Stanford courses in human biology, philosophy, macroeconomics — subjects I know very little about,” he said last spring. He will teach conjoint analysis in the doctoral program at the Indian Institute of Management Bangalore. “I’m looking forward to contributing to management education back in the country where I was born,” he said. ●

## >Faculty Publications

### ACCOUNTING

Employee Stock Options and Future Firm Performance: Evidence from Option Repricings

**David Aboody, Nicole Bastian Johnson, and Ron Kasznik**

*Journal of Accounting & Economics* (Vol. 50, No. 1), MAY 2010

Chief Executive Officer Equity Incentives and Accounting Irregularities

**Christopher S. Armstrong, Alan D. Jagolinzer, and David F. Larcker**

*Journal of Accounting Research* (Vol. 48, No. 2), MAY 2010

The Timing of Analysts' Earnings Forecasts

**Ilan Guttman**  
*Accounting Review* (Vol. 85, No. 2) MARCH 2010

On the Use of Instrumental Variables in Accounting Research

**David F. Larcker and Tjomme O. Rusticus**

*Journal of Accounting & Economics* (Vol. 49, No. 3), APRIL 2010

Estimating the Cost of Capital Implied by Market Prices and Accounting Data

**Charles M. C. Lee**  
*Accounting Review* (Vol. 85, No. 2) MARCH 2010

### FINANCE

Human Capital, Bankruptcy, and Capital Structure

**Jonathan B. Berk, Richard Stanton, and Josef Zechner**

*Journal of Finance* (Vol. 65, No. 3) JUNE 2010

Long Run Risks, Credit Markets, and Financial Structure

**Harjoat S. Bhamra, Lars-Alexander Kuehn and Ilya A. Strebulaev**

*American Economic Review* (Vol. 100, No. 2), MAY 2010

The Failure Mechanics of Dealer Banks

**Darrell Duffie**  
*Journal of Economic Perspectives* (Vol. 24, No. 1), WINTER 2010

Extreme Governance: An Analysis of Dual-Class Firms in the United States

**Paul A. Gompers, Joy Ishii, and Andrew Metrick**  
*Review of Financial Studies* (Vol. 23, No. 3), MARCH 2010

A Skeptical Appraisal of Asset Pricing Tests

**Jonathan Lewellen, Stefan Nagel, and Jay Shanken**  
*Journal of Financial Economics* (Vol. 96, No. 2), MAY 2010

Discrete-Time Affine-Q Term Structure Models with Generalized Market Prices of Risk

**Kenneth Singleton, Anh Lee, and Qiang Dai**  
*Review of Financial Studies* (Vol. 23, No. 5), MAY 2010

An Equilibrium Term Structure Model with Recursive Preferences  
**Anh Le and Kenneth J. Singleton**  
*American Economic Review* (Vol. 100, No. 2), MAY 2010

### HEALTH CARE ECONOMICS

Reform Incentives to Create a Demand for Health System Reengineering

**Alain Enthoven**  
*Information Knowledge Systems Management* (Vol. 8, Nos. 1-4), 2010

The Effect of Medicare Coverage for the Disabled on the Market for Private Insurance

**John F. Cogan, R. Glenn Hubbard, and Daniel P. Kessler**

*Journal of Health Economics* (Vol. 29, No. 3), MAY 2010

Why Is Health Reform So Difficult?

**David W. Brady and Daniel P. Kessler**  
*Journal of Health Politics, Policy & Law* (Vol. 35, No. 2), APRIL 2010

### MARKETING

Retail Competition and the Dynamics of Demand for Tied Goods

**Wesley R. Hartmann and Harikesh S. Nair**  
*Marketing Science* (Vol. 29, No. 2) MARCH-APRIL 2010

Giving Consumers License to Enjoy Luxury

**Uzma Khan, Ravi Dhar, and Svenja Schmidt**  
*MIT Sloan Management Review* (Vol. 51, No. 3), SPRING 2010

Lusting While Loathing: Parallel Counterdriving of Wanting and Liking

**Ab Litt, Uzma Khan, and Baba Shiv**  
*Psychological Science* (Vol. 21, No. 1) JANUARY 2010

The More People Want Something, the Less They'll Like It

**Uzma Khan**  
*Harvard Business Review* (Vol. 88, No. 6) JUNE 2010

Broadening the Scope of Consumer Research

**John Deighton, Debbie MacInnis, Ann McGill, and Baba Shiv**  
*Journal of Consumer Research* (Vol. 36, No. 6), APRIL 2010

Believe Me, I Have No Idea What I'm Talking About: The Effects of Source Certainty on Consumer Involvement and Persuasion

**Uma R. Karmarkar and Zakary L. Tormala**  
*Journal of Consumer Research* (Vol. 36, No. 6), APRIL 2010

“Think” Versus “Feel” Framing Effects in Persuasion

**Nicole D. Mayer and Zakary L. Tormala**  
*Personality and Social Psychology Bulletin* (Vol. 36, No. 4), APRIL 2010

### OPERATIONS

Building Sustainable Organizations: The Human Factor

**Jeffrey Pfeffer**  
*Academy of Management Perspectives* (Vol. 24, No. 1), FEBRUARY 2010

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>Faculty Research

# Sharpe Touts Flexibility in Retirement Spending

**Economist says the 4% rule can leave retirees with too little or too much.**

SAVING FOR RETIREMENT is hard enough. It turns out, though, that spending intelligently during retirement is difficult as well. The soon-to-be-retired person has to make a range of decisions about spending that will have real consequences for as long as he or she lives.

Sadly, though, “the 4% rule,” which is the most commonly offered spending advice proffered by investment professionals and popular media, ultimately can be harmful to the interests of people who heed it, according to recent research by Nobel Laureate **William Sharpe**, STANCO 25 Professor of Finance, Emeritus, at the Graduate School of Business.

Simply put, the rule suggests that the retiree spend an inflation-adjusted 4% of his or her retirement assets each year, while keeping the balance of those assets in a portfolio that typically includes both stocks and bonds. That might be a reasonable strategy in a world in which stocks aren’t risky. But they are, of course. Moreover, the rule has more problems than discounting the downside of investing in instruments that have an element of risk.

“If a retiree adopts a 4% rule, he will waste money by purchasing surpluses, will overpay for his spending distribution, and may be saddled with an inferior spending plan,” wrote Sharpe and colleagues Jason Scott and John Watson of Financial Engines, Inc., in Palo Alto, Calif.

What’s really wrong with the 4% plan is its insistence on fixed spending coupled with investing in a portfolio with variable returns, Sharpe said. In the most obvious case, when a retiree’s portfolio underperforms, stubbornly pulling money out at the same rate means he or she will run out of money at some point. Clearly, most advisors would see that coming and caution the retiree to spend less.

Less obvious, though, is the consequence of better-than-expected returns. First of all, remember that investments have a price. Then, remember that the rule assumes a constant rate of spending and posits a retirement lasting 30 years. Ruling out what economists call “the bequest motive,” we can assume that the retiree wants to spend it all within the retirement period.

But generating a surplus means that money is left over at the end, which is a waste. Not only is the surplus wasted, but additional waste also occurs on the front end because the retiree paid for investment surpluses that weren’t needed.

Planners who believe in the 4% rule often modify it, changing the amount to withdraw, the length of the plan, the portfolio mix, the rebalancing frequency, or the level of confidence that the money will last. “However, all these variations have a common theme — they attempt to finance a constant, non-



*William F. Sharpe*



volatile spending plan using a risky, volatile investment strategy,” the researchers say.

Consider a client with a portfolio of \$1 million. Rather than adopt a 4% plan with risky securities, the investor could instead invest in TIPS (treasury inflation protected securities), Sharpe suggested. The yield would be lower than that of equities in good stock market years, but TIPS deliver the most purchasing power without risk one can obtain. So an investor might be guaranteed approximately 3%, which would allow him or her to withdraw \$30,000 a year.

Maybe that’s enough. If not, the client might choose to accept some level of risk as a tradeoff for higher earnings. But how much risk can the retiree tolerate? Traditionally, financial advisors give clients a list of questions that are supposed to paint a portrait of risk tolerance or aversion. However, there’s no evidence that these quizzes yield much useful information. That’s according to a 2008 research paper by Sharpe and colleagues Daniel G. Goldstein of the London Business School, and Eric J. Johnson of Columbia University. It’s

*Continued on page 35*

PHOTO BY FREDRIK BRODEN



# Preserving Self-Worth Motivates Morality

**Professor Benoît Monin says lofty ethical principles matter less than we think.**

WE LIVE IN AN ERA of environmental awareness, and financial crises and scandals such as Enron. In this climate, the mission of business schools to understand the ethical decision making of managers and leaders has greater relevance than ever.

Adding a unique perspective to this field is **Benoît Monin**, an expert on moral psychology. The associate professor of organizational behavior at the Graduate School of Business studies what shapes people's ethical decision-making and behavior in everyday situations. He finds that lofty ethical principles matter much less than we think.

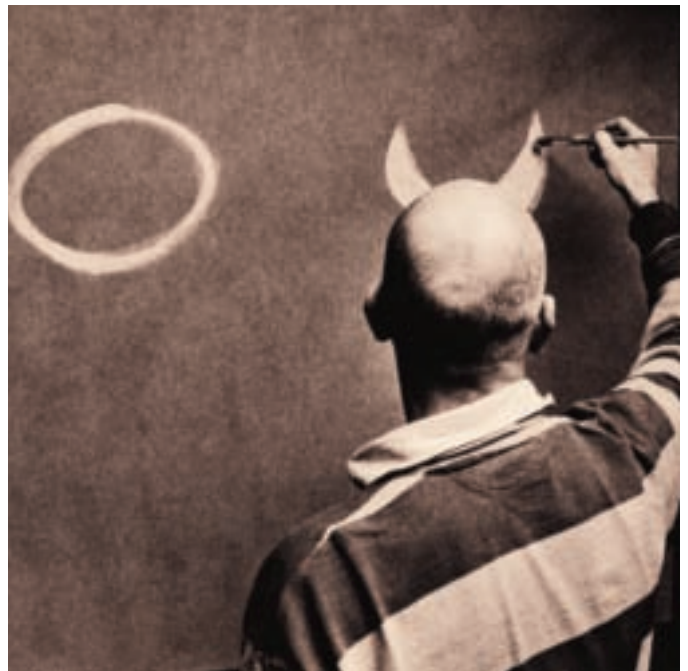
"Many of our choices are guided less by abstract principles than by whether we presently feel like a good or bad person and whether we see other people as good or bad," said Monin, who has taught ethics and management at the business school and is also an associate professor of psychology in Stanford's School of Humanities and Sciences.

Monin's research reveals the complex interplay between self-image and morality. His key idea: Your sense of self-worth greatly affects your behavior and how you judge the behavior of others. If your self-worth is threatened, you probably will defend it and try to compensate. So you'll rationalize your behavior by judging yourself more moral, or you'll put down the morality of others. On the other hand, if you are confident that you are a good person, you can feel less compelled to act ethically. "The choices we make are influenced by how confident we are that we're a good person. If you're confident in your self-worth, you're not as sensitive to threats," Monin said.

Using techniques from experimental social psychology, Monin has identified psychological concepts and everyday situations in which such moral dynamics come into play. Under a phenomenon he calls the "sucker to saint" effect, people tend to cast themselves as morally superior when another person's behavior makes them feel naïve or foolish. For instance, if a colleague succeeds better than you by cutting corners when you have dutifully followed every rule, you would be motivated to derogate the co-worker as unethical, and elevate yourself as a paragon of morality.

In one experiment, Stanford undergraduates were asked to do a tedious task — write the words for numbers (one, two, three, etc.) as quickly as possible until told to stop. Another person playing the role of "rebel" entered the lab and was asked to do the same thing but quit after one minute. Participants then were asked to rate themselves and the rebel on traits. Those who completed the chore and witnessed the other person quit rated themselves more moral than the rebel. "People claim to be saints rather than feel like suckers when they see others take shortcuts that they didn't think of themselves. Rather than uphold abstract principles of justice, moral judgment may sometimes just help people feel a little less foolish," noted Monin and coauthor Alexander H. Jordan in a 2008 paper.

Similarly, people often resent "moral rebels," or peers who do the



right thing by refusing to go along with a questionable status quo. Their moral high ground implicitly puts you on lower moral ground. Their principled stand points out your failure to do the right thing. You might get annoyed and dismiss the do-gooder as "just goody two shoes," Monin said, calling the phenomenon "do-gooder derogation." This is especially problematic when people in organizations take a stand against a practice or request that they find ethically questionable and must face resentment from peers who feel threatened by their stance.

In one study the researchers asked undergraduates to pick the most likely suspect in a burglary. They were shown three photographs and given information implicating the sole African American over the other two suspects, both white. Participants were asked later to rate fictitious participants who supposedly had been given the same task. The fictitious people were either "obedient" ones who picked the black suspect or they were "rebels" who refused to circle a face, saying the task was "obviously biased." Other neutral participants first rated the fictitious participants and then did the task themselves — so they weren't first implicated in the task. Participants who had been implicated by choosing the black face first reported disliking the moral rebels. Those who hadn't yet made a selection liked the rebels and called them more moral. "But once you've done it yourself, the rebel makes you feel like a schmuck, and you resent the person that you would have otherwise embraced as a hero," Monin said.

In earlier research, Monin and **Dale Miller**, Class of 1968/Ed Zschau Professor of Organizational Behavior at the business school, developed the concept of "moral credentialing." That is, if you do something "good," you then feel licensed to do something "bad." You're off the hook. Monin and Miller's research demonstrated that people who chose a black or female applicant for one job were more likely to prefer a white or male candidate in a second recruiting task. Having established moral credentials as nonprejudiced, they felt freer to express views that could appear biased. "If I'm confident I'm a good person, that's going to liberate me," Monin said.

Monin believes that the dynamics of moral psychology offer lessons for business. Managers might be wiser about hiring and firing if they are keenly aware of how their perception of their own self-worth affects their decision-making. Companies embarking on green initiatives should be vigilant not to let themselves off the hook in another area of social responsibility. Marketers selling green products might become aware of the risk of consumer backlash if the green aspect is marketed too conspicuously. And managers promoting good practices should anticipate that people who do the right thing might face resentment from their peers. ●

— MARIA SHAO



*Benoît Monin*



Award-winning professors David Larcker, left, Maria Ogneva, and Alan Jagolinzer soak up the sun with Larcker's Harley Davidson.

# Numbers Favor Accounting Profs for Awards

## >Faculty News

CONTAGIOUS PASSION for a potentially dry subject, commitment to students, and a flair for fun helped three accounting professors sweep the 2010 teaching awards at the Graduate School of Business. MBA students presented their Distinguished Teaching Award to **Alan Jagolinzer**; PHD students honored **David Larcker** with their Faculty Distinguished Service Award; and **Maria Ogneva** received the Sloan Teaching Excellence Award.

Citing Jagolinzer's careful selection of readings and design of assignments, MBA student **Andy Katz-Mayfield** also pointed to the assistant accounting professor's frequent use of humor to reinvigorate his class.

"This professor loves to roast his students. I'll never forget my moment in the spotlight when I gazed up to find a 10-year-old version of myself in a Halloween-inspired leotard dancing across the projector screen," he said.

Jagolinzer, who shared credit for the award with others who brought real-world insight into the classroom, began teaching at Stanford in 2004. He is leaving the university to teach at the University of Colorado Leeds School of Business. In 2009, he received the Sloan Teaching Excellence Award.

PHD students praised Larcker, who has taught at Stanford since 2005, for his approachability, excellent teaching skills, and tireless efforts to instill a sense of community.

Larcker is the James Irvin Miller Professor of Accounting, although those who meet him for the first time would never guess he's an accountant — "perhaps a football coach or a motorcycle repairman," doctoral student **Eric So** said, referring to Larcker's athletic appearance and well-known love of motorcycles.

"His door is always open," doctoral student **Gaizka Ormazabal** said. "You can go there and talk about anything, tell about crazy research ideas you have, and he'll listen." Just as important, "He's all about fun. He knows that to be productive you have to have fun also in your work."

Ogneva, who joined the GSB faculty in 2008 and first began teaching in the Sloan Master's Program in January, taught the financial accounting class for 57 Sloan Fellows.

"We appreciated that you cared about our learning and worried about us when you thought we weren't keeping up," Sloan Fellow **Lakshmi Lakshmanan** said.

Ogneva's concern extended to arranging for several help sessions, including teaching one herself the Sunday afternoon before the final exam. Students also praised her for soliciting feedback and constantly fine-tuning her teaching to meet student needs.

"This class would not have been a success without you," Ogneva told the fellows. "I expected a group that was motivated, intelligent, and successful in their careers. I did not expect a group that was so genuine, so sincerely friendly and open to me."



# Case Against Goldman Sachs Tough to Prove, Professors Say

HOURS AFTER GOLDMAN SACHS executives endured a grilling by U.S. senators on Capitol Hill last spring, two senior Stanford faculty members explained the intricacies of the synthetic collateralized debt obligation market and measured the strengths and weaknesses of the Securities and Exchange Commission's landmark lawsuit against the nation's most powerful investment bank. Goldman eventually agreed to pay a fine of \$530 million.

Although the SEC's complaint painted Goldman's massive bets on the mortgage market as negligent at best and fraudulent at worst, the facts are complex, and it appears that the commission might have had a difficult time proving its case, the professors told a standing-room-only crowd at Bishop Auditorium.

"The less people know about the market, the more likely they are to believe Goldman is guilty," said **Joseph Grundfest**, a professor at Stanford Law School and a former SEC commissioner. More knowledge leads to doubt about the strength of the case, he said.

**Darrell Duffie**, a professor of finance at the Graduate School of Business and an expert on complex derivatives, explained the intricacies of a deal known as Abacus 2007 AC-1, a \$2 billion securities package at the heart of the federal complaint, and concluded that Goldman did not profit from it. Instead, Abacus resulted in a net loss of \$75 million to Goldman, he said.

However, Goldman's clients, who bought the securities on the advice of the investment bank, suffered a loss of \$2 billion, while John Paulson, a hedge fund manager on the other side of the deal, landed a \$1.1 billion profit.

Neither Grundfest nor Duffie expressed approval of the deal or of the complex financial mechanisms that led to the collapse of the housing market and subsequent recession. Indeed, both came out on the side of stricter regulation of the financial markets in general and the derivatives market in particular.

The SEC contends that Paulson knowingly selected the worst securities — those most likely to fail — because he was building a short position. Goldman doesn't deny knowing that Paulson was short but contends that the companies on the opposite side of the trade — ACA Capital Management and German bank IKB — had to be aware that the deal couldn't exist if no one held a short position.

To convince a judge or jury that Goldman is guilty, the SEC would have had to show that Goldman withheld information that a short seller was a key part of the deal, Grundfest said. Goldman denies that.



Law professor Joseph Grundfest, left, with finance professor Darrell Duffie at a spring discussion of the securities complaint against Goldman Sachs.

But even if it were true, the SEC would have had to prove that the omission was legally significant, he said.

The SEC also would have needed to prove that Goldman knew its actions were inappropriate, intended to deceive its investors, and was negligent. It would have had to show that Goldman engaged in "highly unreasonable" conduct that "represents an extreme departure from the standards of ordinary care."

## Kreps Receives Two Honors

**DAVID KREPS**, the Adams Distinguished Professor of Management at the Stanford Graduate School of Business, has been elected a Distinguished Fellow of the American Economic Association and also honored with the business school's Davis Award.

"By any measure, he is one of the premier scholars of his generation," **Chuck Holloway**, the Kleiner Perkins Caufield & Byers Professor of Management, Emeritus, said during the annual faculty honors dinner at which the Davis Award was presented.

"Nothing he touched didn't get improved," said Dean Emeritus **Robert Joss**, with whom Kreps served as a senior associate dean for nearly a decade. "He was a champion and guardian of academic values of the school. There wasn't a day he didn't insert those values into our conversations."

Holloway said Kreps was "probably the longest-serving associate dean in the history of the GSB." Both Holloway and Joss expressed amazement that Kreps continued to teach and do research while serving as senior associate dean. "His last book [*Microeconomics for Managers*, 2004] was certainly completed during his deanship and may have been started during it," Holloway said. Kreps also taught PHD, MBA, and executive classes while being what Joss described as the master implementer of the Saloner report on curricular reform, which the school instituted as a sweeping new MBA curriculum.

The Davis Award is named for the late marketing Professor **Robert Davis**. It is presented by the school's faculty to recognize lifetime achievement, including service to the school, scholarship, teaching, and innovation in the classroom.

Kreps' election to the American Economic Association was announced in April. The honor is given to past presidents of the AEA and can be awarded to other economists of high distinction from the United States and Canada. Not more than three economists can be elected fellows in any year.



David Kreps

## Two New Endowed Chairs Filled

PROFESSORS **JESPER SØRENSEN** and **Jeffrey Zwiebel** have been named to fill two new endowed chairs. In addition, five other faculty members were named to hold existing chairs.

A scholar in the field of organizational behavior, Sørensen will be the Robert A. and Elizabeth R. Jeffe Professor. **Robert Jeffe**, MBA '74, is chairman of the corporate advisory group in the Americas for Deutsche Bank. Elizabeth Jeffe is an adjunct professor at Marymount College. Sørensen's research focuses on dynamics of organizational and strategic change and the implications for individuals and their careers.

Zwiebel will be the first James C. Van Horne Professor of Finance. The chair was established by alumni and friends to honor Professor Emeritus **James Van Horne**, who twice has won the school's distin-



## Knowledge Network

guished teaching award and estimates that he has taught more than 7,000 students. Zwiebel's expertise is in corporate finance, organizations, the theory of the firm, and microeconomic theory.

## Faculty Book Explores Limits of Learning from Experience

PROFESSOR EMERITUS **James G. March** has written a new book that examines the possibilities and problems of learning from experience. In *The Ambiguities of Experience*, March, who taught business, education, political science, and sociology at Stanford from 1970 to 1995, looks at the problems organizations and individuals face when they depend on experience to adapt, improve, and survive.

Although individuals and organizations rely extensively on experience, it often leads them to misguided conclusions, says March, the Jack Steele Parker Professor of International Management, Emeritus. This is partly because of errors in how people think but more a result of properties of experience that confound learning from it. "Experience may possibly be the best teacher, but it is not a particularly good teacher," March says.



**James G. March**

Watch March's 2003 film *Don Quixote's Lessons for Leadership*. [BizOnline.Stanford.edu/march](http://BizOnline.Stanford.edu/march)

## Oil Filters Make People Healthy

MOTOR VEHICLES CAN BE a crucial missing link in the health delivery supply chain in Africa. **Hau Lee**, the Thoma Professor of Operations, Information and Technology, and **Lesley Sept**, associate director of the Stanford Global Supply Chain Management Forum, are working with Riders for Health, a fleet manager in rural areas of seven African countries, to study the direct impact that keeping a fleet of motorcycles or other vehicles running has on health worker productivity, health intervention coverage, and fleet logistics efficiencies.

In November 2008, the Bill and Melinda Gates Foundation awarded Riders a grant to expand operations. As part of Lee and Sept's work with the group, the Global Supply Chain Management Forum has published a case study, written by **Sonali Rammohan**, assistant director of the forum's Socially and Environmentally Responsible Supply Chains Program, examining the evolution of Riders' work in Gambia on a comprehensive vehicle management model called Transport Asset Management.

When the national vehicle fleet is fully rolled out, according to Rammohan, Gambia will become the first African country to have sufficient delivery vehicles to service its population, given the structure of its health system.

## Kumar to Lead Chicago Booth

**SUNIL KUMAR**, THE GSB'S Fred H. Merrill Professor of Operations, Information, and Technology, has been appointed dean of the University of Chicago Booth School of Business beginning Jan. 1, 2011. Currently senior associate dean for academic affairs, Kumar's research focuses on the use of mathematical models to study operations affected by stochastic variability. He co-developed a factory simulator — Littlefield Technologies — for teaching operations management that has been used in classes at more than 50 business and engineering schools. Kumar, who has been on the business school faculty since 1996, was heavily involved in drafting the new MBA curriculum that was implemented in 2007. He also leads the faculty groups in marketing and organizational behavior.

## Duffie's Diagnosis and Remedy for Ailing Financial System

IN A NEW BOOK, finance Professor **Darrell Duffie** goes behind the scenes to describe a network of incentives and financial contracts that led to run-on-the-bank calamities during the financial crisis of 2007–2009. He argues that placing the global financial system on a sounder footing depends on an understanding of how the largest and most connected banks — the major dealer banks — can make a sudden transition from weakness to failure.

In *How Big Banks Fail and What to Do About It*, to be published by Princeton University Press later this year, Duffie outlines improvements in regulations and market infrastructure that are likely to reduce the risks of bank failures and the damage to the wider financial system when dealer banks do fail. These large banks are at the center of the plumbing of the financial system. Among other crucial activities, they intermediate over-the-counter markets for securities and derivatives. Although the financial crisis has passed, the dealer banks remain among the most serious points of weakness along the backbone of the financial system, says the Dean Witter Distinguished Professor of Finance who is also a director of Moody's.

In the book, he concludes that some of the needed reforms to mitigating bank failures were suggested in 2009 by the Basel Committee on Banking Supervision and in the U.S. Restoring American Financial Stability bill, while other regulation and market infrastructure changes still do not receive adequate attention.

Duffie is also coauthor of *The Squam Lake Report*, in which 15 leading academic economists reach a consensus on recommendations for policy changes as a result of the financial crisis. The group first met in November 2008 at a resort on Squam Lake in New Hampshire, hence the name of the book, which was published in June by Princeton University Press. About half of the group's proposals were reflected in legislation before Congress this summer, according to the *New York Times*, and Federal Reserve Chairman Ben Bernanke took notice by helping to introduce the book at a Columbia University conference.



# Developing Nations Rebounded Quickly from Economic Crisis

WHILE THE UNITED STATES still seems to be picking itself up from an 18-month-long recession, less-developed countries already have passed through the worst of the crisis and are well on their way back.

That's what **A. Michael Spence**, dean emeritus of the Graduate School of Business, told a student audience in an April speech sponsored by the student-run Public Management Initiative. Spence is chairman of the independent Commission on Growth and Development, a think tank studying global economic policy.

"Although recovery in advanced countries remains fragile, developing countries appear to have weathered the storm quite well," Spence said. He said growth in China and India "is bouncing back toward pre-crisis levels." Brazil is growing after a sharp dip, and other countries are trading again at pre-crisis levels.

It's even more remarkable considering that capital flowed out of developing countries to shore up damaged balance sheets in advanced countries. So why did the less-advantaged countries come back sooner?

Spence said banks played a large role. Rapid responses by central and domestic banks in developing countries prevented a severe credit freeze, and reserves helped offset some of the capital outflow. Some countries also depreciated their currencies.

Despite developing countries' varying capacity to inject their economies with needed fiscal stimulus, "many were capable of at least some countercyclical measures without destabilizing their public finances," the Nobel laureate said. ●

## **SHARPE:** *Continued from page 30*

titled: "Choosing Outcomes Versus Choosing Products: Consumer-Focused Retirement Investment Advice."

Sharpe said investment professionals need to find ways to help clients make a realistic assessment of their own risk tolerance. That means discarding the traditional quiz and finding a better approach. "The way in which you frame a decision affects how someone will make it," he said. Sharpe and other researchers are working to develop methods that will help identify real risk tolerances.

Sharpe, Goldstein, and Hal Ersner-Hershfield, of the Kellogg School of Management, are testing an experiment that will use computer software to change the appearance of photos of test subjects as they make choices about retirement. As the subject moves a slider to the left, which indicates earning more now and saving less, a photo of the subject as a young person gets happier, while a computer-aged photo of the subject as an older person, gets less happy. The reverse is true as well; saving more for retirement makes the older photo happier and the younger photo less happy. The hypothesis to be tested, Sharpe said, is that a visual representation of outcomes will be more meaningful than a column of numbers.

In the future, this experiment may become much more elaborate, showing other visual representations of outcomes, such as comparing the homes of a retiree who saved successfully and one who didn't.

These new experiments are on the frontier of what is being called behavioral economics. "The hot thing in finance is to understand more about how people make choices," Sharpe said. "The more we know about the decision process, the better able we will be to help people make more informed choices."

If people are going to invest in risky assets after they retire, they will need to choose a strategy that adjusts their spending as the value of their savings changes. And that's quite a leap from the inflexible 4% rule. ●

— BILL SNYDER

## **HAU LEE:** *Continued from page 19*

Cisco's U.S. partner and then helped choose Fudan University of Shanghai as the Chinese partner. So far, more than 180 Chinese executives, from industries including steel, pharmaceuticals, banking, and silk making, have taken the one-week sessions held in Shanghai and Shenzhen.

"It's an outstanding opportunity for us to develop supply chain leadership skills in China, an opportunity to educate our own ecosystem" of suppliers and customers, says Jeff Gallinat, vice president of global manufacturing operations at Cisco.

Lee led in designing the curriculum and even teaches classes in Mandarin, although his native Chinese dialect is Cantonese. "Hau is a critical part of the program's success," Gallinat says. "He delivers the goods always."

Fudan sees the institute as a way to improve China's competi-

## Lee is now looking at how to create socially responsible and environmentally sustainable supply networks.

tiveness. "Supply chain management is quite young in China. We still have a huge space to improve our capability," says Yin Zhiwen, associate dean of Fudan's School of Management. Lee's name draws students. "He's like a big hero" among supply chain practitioners, says Yin, also a specialist in operations research.

Last year, Lee invited Yossi Sheffi, director of the MIT Center for Transportation and Logistics, to spend a week in Shanghai teaching. Sheffi, who like Lee is considered among the elite in the field, says his busy schedule means he typically declines many invitations to teach or speak in various parts of the world. But "when Hau invites me, I go. There's nobody else in the world that I would have flown to China for," Sheffi says. "He has the rare combination of research ability, collegiality, and humanity."

**C**ONTINUING TO PUSH THE ENVELOPE, Lee is now looking at how to create socially responsible and environmentally sustainable supply networks. In recent years, he has turned his attention toward topics such as manufacturing pollution, sustainable agriculture, and treatment of workers in developing countries. The Stanford supply chain forum, for instance, has a research program focused on social and environmental responsibility.

Pulling out a pad of paper to diagram his life's work, Lee sketches a square with four squares within. The first square is for mature-economy companies with conventional profit-making objectives; another, for mature-economy organizations with broader goals such as environmental and social responsibility; another, for new-economy companies with conventional objectives; and the fourth, for new-economy organizations with environmental and social goals.

"I've spent all my life here," he says, pointing to the first square. "I'd like to do more in this domain," he adds, pointing to the last square.

For Hau Lee, that would be like coming full circle from when he first saw the world from aboard ship. ●

# Newsmakers

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



Joe Lacob, MBA '83, wearing the Boston Celtics green at a basketball game last year, is coming home as Golden State Warriors owner.

## From Celtic to Warrior

For venture capitalist **Joe Lacob**, MBA '83, it was his personal best investment. In July, Lacob and film producer Peter Guber bought the Golden State Warriors for \$450 million, the highest price ever paid for a National Basketball Association franchise.

This wasn't Lacob's first foray into professional basketball. In the 1990s, he invested in the women's American Basketball League, which disbanded after two seasons. He then became a minority owner of the NBA's Boston Celtics in 2002, when **Wyc Grousbeck**, MBA '92, recruited a group of investors that included Lacob; **Stephen Luczo**, MBA '84; **Mark Wan**, MBA '92; and business school Professor **H. Irving Grousbeck**. The Celtics won the NBA championship in 2008.

"You've got an owner coming in who's got an NBA championship ring, and now he wants another," Celtics managing partner Wyc Grousbeck told the *San Jose Mercury News*. "And I'm going to do everything I can to prevent him," he added.

Lacob called the Warriors purchase a dream come true. "I live in the Bay Area and have for almost 30 years. I'm a Warriors fan. A season-ticket holder. A Stanford basketball guy," he told the *Contra Costa Times*. But, he added, "I've built a lot of companies in my day. I know what's involved. This is a real challenge. This is going to take a lot of work, a lot of hard work. We're prepared to do that. The Number 1 thing: We're going to do our damndest to bring the Warriors to respectability on the basketball court."

## Pavlova Point Person for New Nets Owners

Calling **Irina Pavlova** "the perfect bridge between Russia and the United States," the Russian buyers of the New Jersey Nets basketball team announced in May that Pavlova, MBA '97, would be their liaison with the team's American management.

Pavlova, who grew up in Washington and Moscow and was Google's first employee in Russia, will represent Onexim Sports and Entertainment in New York and manage the development of a new arena in Brooklyn, where the Nets are scheduled to move in 2012.

"I'm not here to meddle," Pavlova said in an interview published on NBA.com. "I'm here to facilitate everything that needs to get done to get us a championship team."

That part of her job description may prove harder to accomplish than mere detente between Russia and the United States. The Nets finished the 2009–2010 season at the bottom of the National Basketball Association with 12 wins and 70 losses.



Irina Pavlova, MBA '97, will represent the Russian owners of the New Jersey Nets.

## Haar on Long-Only Commodities Funds

Since he joined Continental Grain straight out of Stanford, **Stanley Haar**, MBA '77,



has worked in the processing, exporting, and trading sides of the commodities markets. Five years ago he started Haar Capital Management, which trades in agricultural markets. About the same time, the sale of long-only commodities funds began to soar, a development that Haar believes eventually will fizzle. Until recently, these futures mostly were traded by food producers, processors, and distributors to control their market risks.

"Commodity futures are a totally different class of financial instrument than, say, stocks or bonds," Haar told *Futures* magazine in a cover interview. Bonds generate interest while you hold them and, if you're successful, return your principal as well, he said. Stocks have an underlying economic entity, usually a company, whose profits are returned to the shareholder. But a commodity, such as a bushel of wheat, generates no value on its own.

Many investors are using long-only commodities funds as a hedge against inflation, but Haar scoffs. "There are a number of different ways that one can make an inflation bet without owning the wheat market or the corn market," he said, noting that sugar carries a charge structure that can cost the investor any-

TOP LEFT PHOTO BY MICHAEL GOULDING/THE ORANGE COUNTY REGISTER; ZUMA PRESS; BOTTOM PHOTO BY AARON BROWN/NETS BASKETBALL



where from 5% to 20% a year just to break even.

“I suspect that unless there are interventions from the government or the exchanges themselves, what will happen over time is that due to poor returns investors will lose interest in these products.”

## Oprah Brings in a Star to Manage Her Money

Private investment managers generally shun the spotlight, and **Peter Adamson**, MBA '88, is no exception. But Adamson, who quietly guided the Eli Broad Family Office and the Broad Foundations for nine years, made headlines last spring when Oprah Winfrey hired him away from Broad to manage her personal investments in a newly formed family office.

“Winfrey Hires a Star Manager,” proclaimed the *Wall Street Journal*. “Bringing on Mr. Adamson is considered a coup for Ms. Winfrey.” The *New York Times* called Adamson’s hiring “big news in this rarified world [of private investment].”

As chief investment officer for Broad, Adamson oversaw \$2.5 billion in investments and earned 3% to 4% more than the “appropriate indices,” the *Journal* said, describing his investment style as “de-emphasizing stocks and bonds while embracing less traditional fare like hedge funds, private equity, and distressed debt.”

The day before the news broke, Adamson was named *Institutional Investor’s* 2010 Large Foundation Manager of the Year for his efforts at Broad. Another alum, **Marc Schwartz**, MBA '97, will take over as chief investment officer at the Broad Foundations, the *San Francisco Business Times* reported.

## Organic Leadership

**Chad Smith**, MBA '05, senior manager for sustainability at organic greens producer Earthbound Farms, was named one of “40 Under 40” young leaders of the produce industry by *Produce Business* magazine.

“It’s not enough that we produce the most healthful and sustainable food. We need to be able



## Sweet New Venture Is a Family Affair

*Susannah Albright, left, MBA '88, and Jamie Schein, MBA '91, opened a frozen yogurt shop called the Mix in February. Both mothers of teenagers, Albright and Schein told The Almanac that the Menlo Park shop is a good fit for this stage of their lives because, “we basically wanted to hire our own kids.”*

to grow, process, package, distribute, and merchandise in the most sustainable ways,” he said.

## Powell Cuts Waste at General Mills

Packaged food giant General Mills has borrowed waste-trimming ways from Japanese automakers and is growing its brands with a growing middle class in China as well as with Hispanic U.S. consumers, according to **Ken Powell**, MBA '79, a 31-year veteran of the company who became CEO three years ago.

Speaking to the *Minneapolis Star-Tribune*, Powell said the company looks for waste cutting outside the traditional trimming of a supply chain. He cited an example with Nature Valley granola bars:

“When we pack a bar inside a foil liner, we figured out we have three quarters of an inch on either end. So somebody figures out how to seal these bars with no waste on either end. Then we can put the bar in a slightly smaller box. Now we can fit more cases on a pallet in a truck. And all of a sudden there are these very significant logistics savings.”



*General Mills CEO Ken Powell, MBA '79, with one of the company’s well-known products.*

## Youth Movement in Indian Politics

**Jyotiraditya Scindia**, MBA '01, is one of a new generation of young politicians poised to take over India’s leadership, according to the *Financial Times*. The 39-year-old minister of state for commerce and industry is in his second national post. Scindia was first elected to the *Lok Sabha*, the lower house of the Indian Parliament, in 2002 and, in addition, became commerce and industry minister in 2009.

“Every 25 years there is a generational shift in politics. But what’s different this time around is the huge demographic dividend in India,” Scindia said, referring to the fact that 70% of Indians are under age 35. “It’s a unique opportunity.”

Scindia, with his spreadsheets and ever-present BlackBerry, seems “strikingly purposeful,” the newspaper said. “His business-like approach, and that of some of his young peers, is appropriate for a fast-growing large economy outstripped only by China.”

One way of reaching double-digit economic growth, Scindia says, is to improve the country’s governance and delivery. “No form stays on my desk for more than 10 minutes.” ●

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