REINVENTING RETIREMENT
Alums are making surprising choices about how to spend their later years

CHARLIE WOOD, MBA ’76, recently trained as an emergency care technician
AUGUST 26–31: Executive program “Managing Your Supply Chain for Global Competitiveness,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/msc/

SEPTEMBER


SEPTEMBER 18: First day of pre-term program for first-year MBA students

SEPTEMBER 18–20: Executive program “E-Business and Supply Chain Management,” Hong Kong. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/ebscm/

SEPTEMBER 21: Stanford Business School Alumni Association Conference, Hong Kong. Contact Laura Moore at 650.723.2694 or moore_laura@gsb.stanford.edu

SEPTEMBER 26: First day of MBA classes for 2001–02 academic year

OCTOBER

OCTOBER 8–12: Executive program “Silicon Valley E-Commerce,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/svec/

OCTOBER 12–13: Alumni Weekend and fall reunions (MBA classes of ’81, ’71, ’66, ’61, ’56, and ’51), Stanford campus. Contact Coral Hunt at 650.725.3252 or hunt_coral@gsb.stanford.edu


OCTOBER 21–26: Executive program “Negotiation and Influence Strategies,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/nis/

NOVEMBER

NOVEMBER 4–9: Executive program “Leading Change and Organizational Renewal,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/lcor/

NOVEMBER 11–16: Executive program “Finance and Accounting for the Non-Financial Executive,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/fanfe/


FEBRUARY 3–8: Executive program “Managing Teams for Innovation and Success,” Stanford campus. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/mtis/

MARCH 3–7: Executive program “Credit Risk Modeling for Financial Institutions,” Zurich, Switzerland. Call 650.723.3341 or visit www.gsb.stanford.edu/exed/crm/

See the alumni online calendar at www.gsb.stanford.edu/alumni/events/calendar.html

For details on Executive Education programs, see the advertisement on page 15 or visit www.gsb.stanford.edu/exed
Never Say Never

After preening their feathers, some alums fly off to new vistas in the land of anti-retirement. By Robert L. Strauss, MBA/MA '84

Reshaping Industries with Internet Supply Chains

Behind the headlines of e-commerce, the Internet aids and abets methodical transformations in how goods and services are produced. By Garth Saloner and A. Michael Spence
Come Out and Play

THE SCENE ON THE SECOND FLOOR of GSB South one afternoon in June reminded me of the Christmas Santa brought a train set: adult kids gathered round a toy arguing, teasing, giggling, and having an all-round good time, which was obvious when nobody wanted to leave at the appointed hour.

Our toy was an Internet chatroom, hardly a new invention but new to this bunch—people previously without the inclination or time to explore the virtual world of chat. Someone had suggested we host a classic GSB discussion of a business case on the Web. Our far-flung alumni/ae could get their reading assignment in this magazine (see page 13) and log on for the discussion at 5 P.M. Pacific time on September 20. As chat virgins, we decided we needed a test run.

Professor Jim Phills, unable to use body signals, lost control of the class within seconds. His students all wanted to add their two cents but, because of the delay between typing a comment and its appearance on others’ computer screens, Barbara interrupted Everett’s response to Gale. Firming his grip, Phills suggested we all answer the same question before we responded to each other. The fast typists could send “whispers” to a classmate without interrupting the group.

Now you can join us in the ether (see details at the top of page 13). I can’t guarantee this little train will run perfectly the first time, but the discussion should be stimulating. Besides, I bet you’ll find there’s some kid left in you.

Kathleen O’Toole

EDITOR

CONTRIBUTORS

Our cover photographer, DAVID STRICK, regularly works for Fortune, Time, and Premiere. He notes that he is taller than he looks in this photo but not necessarily better dressed. Strick is based in Los Angeles.

Five days before the due date for her first child, POLLY BECKER bravely accepted our assignment to illustrate the special nature of the GSB culture for the Dean’s column (page 3). Becker, based in Boston, graduated from the Rhode Island School of Design in 1985. She includes the New Yorker, Newsweek, and Absolut Vodka on her client list. Oh yes, her son, Adam, was born on June 24.

EVERETT HARPER, MBA ’99, came to the story on page 12 with a background in both social entrepreneurship and for-profit enterprises. After starting with Bain as an associate consultant, he joined Self-Help, a community development finance institution, in 1989. He founded Harper Associates in 1993, consulting on organizational development and strategy. Harper is currently employed at Ninth House Network, an online management training firm in San Francisco.

When AMY BUTLER PAULSEN, AB ’88, MBA ’93, and her husband were laid off from fast-paced jobs earlier this year, it allowed her to enjoy more time with her family and triggered her desire to write about making the most of career disruptions (page 14). Paulsen has just begun a new job as director of strategic projects for the Stanford Alumni Association but sees work with a new perspective.

ROBERT L. STRAUSS, MBA/MA ’84, is a three-time Lowell Thomas Award winner whose work frequently appears in the San Francisco Chronicle Magazine, Stanford Magazine, and on the Discovery Channel. Writing about creative retirement (page 16) made him realize he had not yet worked hard enough to think seriously about retirement himself. Strauss expects to work until he’s very, very old.
Our Size is One of Our Strengths

By Dean Robert L. Joss

In recent months, many alumni/ae and students have expressed their appreciation and support for the close-knit culture of our School. A sizable majority believe that the relatively small size of our community is critical to the transformative nature of a GSB education. They were worried because I had asked our community to reflect on three possible growth options for the School: the creation of a coterminal master’s degree for Stanford undergraduates, the formation of an Executive MBA, and the expansion of our existing MBA Program.

If you were among the worried, you will be relieved to learn that I have decided not to expand enrollment in the MBA Program and not to initiate a separate professional master’s degree program for “younger” students. While we will not form a “weekend” or part-time MBA Program, the School will continue to explore options for master’s degrees for “older” students, building from the very fine base of the Sloan Program. We also will proactively seek applications to our MBA Program from outstanding younger students who may have believed in recent years that they would not be admitted because of the widespread perception that several years of full-time work experience were required for admission.

Some of you have asked, Why mess with success? Like successful businesses in a changing world, we must continuously reevaluate how and how well we achieve our mission, which is to be a world leader in management education based on the enduring quality of our ideas and the leadership impact of our graduates and faculty.

I am convinced that the School does not need to increase MBA enrollment to accomplish its mission and that, in fact, the GSB’s small size is one of its strengths. It not only promotes a culture in which students get to know all of their classmates, it also allows our faculty to avoid departmental balkanization, and it fosters interdisciplinary and cross-disciplinary research and teaching, which make our insights more valuable in both the worlds of management and academics.

Our small size is not without drawbacks, however. It limits our ability to cover subject areas in depth, it diminishes our capacity for global impact, and it makes financing the School more difficult. It has resulted in a faculty that is stretched thinly, and it limits how many managers we send out into the world. My intention is to increase the size of the faculty by about 10 percent and use our efforts in electronically mediated learning to improve our worldwide reach.

For the time being, I am rejecting the option of a “weekend” or part-time executive MBA program, because I am not convinced that it would be consistent with our basic strategy of offering transformative educational experiences, and because I worry that such a program might dilute the brand of our regular Stanford MBA Program. But led by the example of the Sloan Program, I believe we have a strong basis from which to explore further options for MBA or other master’s level programs for older and more experienced students.

In short, we want to get the culture right, improve how we operate, capitalize on the uniqueness of our small size, raise our international and senior management impact, and make sure we have a faculty that covers all the critical bases. Financing this mission won’t be easy. As we incrementally add faculty and services to students and alumni/ae, the challenge will be great. My decision to retain our small size is therefore, in part, a leap of faith—faith that the friends of the School, including alumni/ae, will provide the financial resources to allow us to remain small. My confidence in our future is buoyed by the enormous goodwill and institutional loyalty you have displayed and your shared commitment to seeing the School as the undisputed leader in management education.

“...the relatively small size of MBA classes promotes a culture in which students get to know all of their classmates, and our faculty avoid departmental balkanization.”
Classrooms Get High-Tech Upgrade

Technology-glitch days are the bad-hair days of educational institutions. Murphy’s Law seems to apply with a vengeance to overhead projectors, VCRs, networks, and laptops that are hooked up to classroom viewing screens.

The School began tackling this irritating problem more than five years ago by testing prototype technology configurations in two classrooms and experimentally collecting faculty feedback, says Jeff Moore, assistant dean for computing and lecturer in computer and information systems. Now all major classrooms are being upgraded for fall classes.

“The computer technology itself was the easiest part,” Moore says. “Getting the human factors correct was much harder.”

Two extensively upgraded classrooms also permit electronically mediated learning in more than one locale. Classroom 180 and the executive education program’s classroom 160 will provide greater interface with the business community and tools for developing distance-learning techniques. Room 180 has a full TV studio control room that supports video conferencing, narrow-casting to other classrooms, and Web video streaming.

The new executive education room “allows faculty to bring business speakers into their classes without requiring them to come to campus,” says Gale Bitter, the program’s director. The technology also can connect the classroom to another elsewhere. The intent, she adds, is to “integrate technology so that it supports teaching without getting in the way.”

E-Tail Optimist

CEO Jeanne Jackson of Walmart.com is one upbeat dot-commer. With one foot in a strong, dominant, old-economy company and one foot in Silicon Valley, Jackson believes she can turn a growing number of Internet users into Internet shoppers. And, contrary to dreary reports about the fate of e-tailing, the future looks bright for traditional brick-and-mortar companies that are targeting the Internet as a new vehicle to reach customers, she told Business School students spring quarter.

Fundamental to Jackson’s optimism is the belief that unprofitable sales will no longer be tolerated and “real transactions” will result. “Being able to buy things below cost is going to go away. Having companies pay you to make a purchase is going to go,” she said.

Back So Soon? You Bet They Are!

The most surprising thing about the first-ever first-year-out reunion was that nobody ever thought of holding one before, says Katie Rollins, MBA ’00, a leader in the merry band that made it all happen.

Nearly 200 of the 344 members of the Class of 2000 hied themselves all the way from New York, Mexico, Europe, and Asia to reunite over dinner at the Faculty Club, dancing...
at the Lime Light Nightclub in nearby Mountain View, and drinks at—what else!—an LPI held in their honor by the MBA Class of 2001.

But it was the spontaneous events during the late April weekend that meant the most to Rollins and her classmates—just talking with friends or rallying the troops for a pickup soccer game with the current GSB team (students–3, alums–1, not so surprising).

Alumni officer Lisa Brown, who stage-managed the event, is every bit as enthusiastic. “We’re definitely going to do it again,” she says, citing the “tremendous” turnout.

Take That, You Sloans

EMBRACING BATTLE PLANS from Napoleon and the Union Army at Gettysburg, the former military men and women in the MBA Program managed to annihilate the bankers and consultants in the Sloan Program when the Sloans took up the MBAs’ challenge to a paintball war spring quarter. It was the second time the military minds put their training to use by auctioning off a war to raise money for charity.

Although they knew a previous Sloan class had lost badly, the Sloans accepted the challenge despite their inexperience with certain forms of strategic decision making.

The teams began preparations before dawn and staged seven skirmishes, two of which were victories for the Sloans. The MBA vets eventually put most of their forces on defense and lured the Sloans into a frontal attack that led to their “total annihilation,” according to Rafael Lizardi, a second-year MBA who is also a captain in the U.S. Army.

Europeans Honor Øvlisen in London

MADS ØVLISEN, MBA ’72, who is president and CEO of the Danish healthcare giant Novo Nordisk A/S, is the 2001 recipient of the European Business Leadership Award, presented by the School’s Alumni Association at the London conference last March. More than 300 people from 22 European countries participated in the three-day conference that culminated with a banquet honoring Øvlisen.

Dean Robert Joss, faculty, and alumni presented case studies and panel discussions on topics such as Stanford’s impact on international accounting standards, how great companies achieve extraordinary results with ordinary people, and trends in electronic commerce. Audio files of the sessions are available online at www.gsb.stanford.edu/services/news/audiovideo.html#london.

Pilot Program for Nonprofit Leaders

NEARLY 50 NONPROFIT executives became pioneers in June, when the Executive Program for Nonprofit Leaders was offered by the Business School for the first time.

Selected for their leadership as well as for the impact of the organizations they represent, the participants were sponsored by the GSB’s new Center for Social Innovation (CSI), which awarded each of them $10,000 of the $11,000 total tuition and fees.

For two weeks, the CSI fellows took courses designed

—CHERIAN GEORGE
FOR THE RECORD

CLASS OF 2001 COMMENCEMENT

DEGREES GRANTED

MBA .............................................. 350
JD/MBA ........................................... 2
PhD ................................................. 11
Master’s in
- Business Research .................. 4
- MS (Sloan) ............................... 48

CERTIFICATES

Global Management .................. 43
Public Management ................. 38

MBA AWARDS

Alexander A. Robichek Award
Achievement in finance courses: Chosen by the finance faculty
George Jeffrey Young

Ernest C. Arbuckle Award
Contributed most to the fulfillment of the goals of Stanford Business School in and out of the School: Chosen by classmates
Phyllis Barkman Ferrell

Henry Ford II Scholar
Academic achievement: Top scholar
Peter Waldo Frith

Arjay Miller Scholars
Academic achievement: Top 10 percent of the class
Elif Ayse Aktug
Matthew Hamilton Battles
Michael Stephen Brown
Timothy Chang
Sherwin Yih-Wen Chen
Rajnish Aniruddha Chitaley
David Peter Cognan
Alicia Marie Erdman
Phyllis Barkman Ferrell
Peter Waldo Frith
Charles Bradford Gaillard
Ernest Joseph Gallo
Enrique Garcia Lopez
Brenda Krantz Greenberg
Karen Elizabeth Greve
Baris Karadogan
Paul S. Kasper
Liron Kronzon
Jeanne Lee Kwong
Ammar Fuad Maraqa
Harald Sijbren Miedema
James Cameron Montzacee
John Lewis Morrison, Jr.
Robert Lee Morse, Jr.
Lauren Nicole Pressman
Kausik Rajgopal
Robert Lawrence Ransom
Robin Bryson Reynolds
Nadine Frances Skuble
Jennifer Dare Smith
Paul Hudson Staelin
Christopher Albert Thomas
David Michael Trounce
Joaquin Valle del Olmo
Tom Edward Weston
Jeffrey Chian-Lee Wu
George Jeffrey Young

SOURCE: Registrar’s Office

especially for them by Business School faculty. They learned how to integrate private-sector strategies with their public-sector missions and to negotiate and form alliances across the sectors. They discussed the latest innovations in social entrepreneurship, social capital markets, and marketing in the nonprofit sector. And they brushed up on corporate techniques in financial management, organizational behavior, and governance.

“The program’s primary objective is to develop and nurture nonprofit leadership capability, which we believe is reflected in the impact on the individual leaders and, through them, on their organizations, communities, and sector,” says James A. Phillips, the program’s faculty director.

The pilot program was offered to managers in social services areas such as health care, education, and community development. Beginning in 2002, a second session will be added for nonprofit executives in the arts.

Second-Year Head Start

THERE’S PLENTY OF FOOD for thought in this fall’s new, one-week, pre-quarter seminars. Each class is limited to 12 second-year MBA students and offers two academic credits. Each centers around a faculty member’s particular area of research interest, and there’s something to tempt everyone in the smorgasbord of topics. The participants in Joanne Martin’s seminar will consider small- and large-scale efforts at establishing gender equity in organizations. Tim Groseclose’s students will read political biographies in an effort to identify the games politicians play to push their own interests. And John McMillan’s students will examine the “gigantic natural experiment in economics” in Russia and China as those nations undergo wrenching transitions from planned economies to markets.

Meanwhile, Joel Podolny and his students will consider the role of status and identity in a variety of competitive markets and in the market for corporate control. Jennifer Aaker will lead an investigation of the cross-cultural consumer.

Dean Robert Joss will draw on his experience as well as his research in discussing the qualities of leadership and the differences between leading and managing. Darrell Duffie will present an investment strategy a day, including value investing, shorting, and hedging. And Chip Heath and his students will examine why some ideas stick and some don’t, and how to take advantage of both.

Finally, there’s some liquid refreshment on the menu. Noting that the United States now surpasses Germany in number of operating breweries, Glenn
Carroll will offer a seminar, *All About Beer*, that traces the evolution of the U.S. beer industry from the rise of gigantic mass producers to the recent microbrewery revolution. No extra credit will be given for field trips.

### Longtime Supporter Peterson Dies

THE SCHOOL LOST an alumnus, friend, and longtime supporter in Gregor Peterson, MBA ’59, who died of cancer in April at the age of 68.

“Greg came to know Stanford as very few people do—as an undergraduate, graduate student, teacher, volunteer, financial supporter, and trustee. In all of these roles, he was motivated by a great affection for and loyalty to Stanford,” said President John Hennessy. Peterson joined the university’s Board of Trustees in 1992 and was serving his second five-year term at the time of his death. He also served two terms as a director of the Stanford Management Company and as chairman from 1996 to 2000. He endowed a professorship at the Business School, which is currently held by Michael Harrison, the Gregor G. Peterson Professor of Operations Management.

### Customizing the Core

SECOND-YEAR STUDENTS MAY not benefit from it, but they’re applauding the newly revised core nonetheless. Thanks to Senior Associate Dean David Kreps, in consultation with the student academic committee and faculty core coordinators, the new core curriculum is more flexible, cohesive, and customized to the individual student, say student academic coaches Greg Miliotes and Horacio Trujillo, both MBA Class of 2002. The Class of 2003 will be first to test it.

Most of the changes involve existing courses: Both organizational behavior classes, micro and macro, now will be taken the same quarter. Also, students can choose either two or four units in *Human Resources Management*, depending on their interest. And *Managerial Economics* will shrink by two credit hours, while *Modeling and Analysis* will grow by two weeks and include half-classroom, half-lab instruction.

But the biggest change is to offer “turbo” classes in economics and data and decisions. Students who qualify will skip over the basics and concentrate on applications. The turbo class in economics will fill the core economics requirement, and the accelerated course in data and decisions will satisfy both the regular *Data and Decisions* and the modeling requirements.

### Responding Quickly, Getting It Right


These crisis situations require moving information to emergency personnel fast, but what’s the best way to deliver it? That was the problem presented to 25 Stanford business and engineering students in a class designed to develop their ability to construct electronic business processes.

The class, *E-Business Process Foundry*, was conceived by Sian Tan, a GSB lecturer who is a vice president of ATC², a technology company creator based in Munich. The course was taught by Tan, Armando Fox of the engineering school, and the GSB’s Jim Patell.

Over 10 weeks, four student teams created Internet- or intranet-based crisis-response systems for the Stanford Blood Bank to respond to an emergency need, for high school coaches to deal with student injuries at away games, for police to use school maps and photos when responding to a school crisis, and for a business...
Santa Clara University.

Before his 1989–93 visit to Stanford, McKern was founding dean and professor at Australia’s Macquarie Graduate School of Management. From 1993 to 1996, he was professor of international business at Carnegie Mellon and president of the Carnegie Bosch Institute, a think tank devoted to research and executive education in international business. Back in Australia, McKern served as president of that country’s oldest business school, Mt. Eliza.

McKern will teach as well as direct the annual program for 48 middle managers.

View from the Top of the Public Sector

BRAD STROH VOLUNTEERED as a Big Brother in Chicago, Ed Holder fixed houses with Habitat for Humanity in California, and Jason Gastwirth helped train welfare recipients for jobs in New York. Now all three members of the MBA Class of 2002 are viewing public service from a different perch—as nonvoting members of the boards of directors of nonprofit organizations. “You are one step removed from the individuals you are helping,” says Stroh, “but in this role, you touch thousands.”

Stroh is helping a consortium of youth programs develop metrics to gauge its success. Holder helps another group develop computer training for the homeless and other library patrons. Gastwirth helps two merging environmental organizations develop cash flow projections and financial processes. All three say they plan careers in the for-profit sector but see nonprofit board service as an ongoing activity. “Age diversity is something I think many boards could benefit from,” says Holder.

Created by students in the GSB’s Public Management Program in 1998, the Board Fellows Program is run by PMP students who match applicants with organizations, says April Chou, MBA ’01, one of the student leaders who this past year matched 50 new fellows with boards who had mentors for them and specific needs.

Added new leader Laura Loker, MBA ’02: “Especially where student interests are well matched with specific boards, there is a great opportunity to learn more about programmatic challenges, policy implications, and public perceptions of various organizations.” Some of the projects are “really tough,” says Andrew Fenselau, MBA ’99, who became a voting board member of an environmental organization as a result of his Board Fellows experience. “I still have a lot to learn about how to value social returns on investment.”

Story-driven comedy and drama has been the strength and temple of radio and TV. I would like Survivor on ABC, but I wouldn’t like it on my tombstone.”

Michael Eisner, chairman and CEO of Disney, delivering the keynote speech at the second annual Future of Content conference at the Business School on April 14.
YOU MAY NOT remember business school being this much fun, but you’ll never convince these toddlers of alums that the GSB isn’t the wildest place on earth. Graduates from the classes of 2000, 1996, 1991, and 1986 returned to campus in late April to celebrate their class reunions, and as an added attraction, the alumni office staged a family-friendly carnival—complete with pony rides, facepainting, a petting zoo, and an array of inflated contraptions to thrill the young and the not-so-young alike. (See more photos from the carnival and reunion parties on page 55.)

*Photo by Matt Hartenstein*
Consider the Future, Warns Scientist

Sun Microsystems’ Bill Joy has stirred up a debate by suggesting that molecular-scale computing could threaten the human race. By DAVID MALTZ, MBA CLASS OF 2002

BILL JOY GIVES THE HUMAN RACE a 50-50 chance of surviving the next 100 years. In an April 5 conversation with Wired magazine’s then editor-in-chief Katrina Heron, the chief scientist of Sun Microsystems sounded a clear and urgent warning against the unrestricted consequences of the rapid advancement and convergence of genetics, nanotechnology, and robotics and cautioned against the hubris of scientists who see themselves as tool-builders and therefore absolved of responsibility for catastrophic consequences of the use of their tools.

Jointly coordinated by the School’s Futurist Club and its Healthcare & Biotechnology Club, Joy’s appearance at the GSB marked the first anniversary of the publication of his landmark essay, “Why the Future Doesn’t Need Us,” in the April 2000 issue of Wired.

The article, which touched off heated debate among scientists, ethicists, technologists, and policymakers, has been compared to Silent Spring, Rachel Carson’s seminal book on the environment, and Albert Einstein’s letter to President Truman warning of the imminent dangers of the nuclear bomb.

Most reactions to the essay were bipolar, Joy said. Respondents either dismissed him as a “nervous Nellie” or took a fatalistic approach, arguing that advances in science are going to happen anyway, so we had better “step on the gas” and get there before our enemies do.

Joy said he felt that the most valid critical reaction came from those who accepted the two basic premises of his article: that the nature of the information age is transforming laboratory science into information science, and that information science is becoming increasingly democratized and powerful. Accepting these two premises implies there is a growing danger of abuse, intentional and accidental, that could quickly reach catastrophic scale.

“If we have a dangerous substance, such as smallpox, in a vial, nobody has any qualms about managing or restricting access to that substance. But if that substance is information or even speech, for God’s sake, then suddenly it becomes sacred in some way,” Joy said.

Among the problems Joy sees with this is that many small, seemingly positive steps can lead to a negative result, and evolution cannot prepare us for what has never happened before.

Joy traced the origin of his concern to a paper written by a friend who works in molecular electronics. The friend convinced him of the imminent possibility of the construction of molecular-scale computers that would extend Moore’s Law (which predicts the processing power of chips will double every 18 months) for another 20 years, an extra factor of 1 million in computing power. “If something is going to be a million times cheaper or not, or a million times more plentiful or not, that makes a big difference in your planning assumptions,” quipped Joy.

One of the most controversial of Joy’s positions has been his call to relinquish the pursuit of certain kinds of technological research. He urged fellow scientists to heed the medical profession’s Hippocratic Oath to “do no harm.” Scientists need to move beyond accepting that something that works in the laboratory is “true” and understand how it will work in the world, to ensure that the result will make the situation better, not worse. Their “tool-builder defense” is no longer valid, he said, because “our tools have become too specific, too difficult to understand.”

“I don’t think we can predict the future, but we see signals,” he said. Ignoring those signals may lead to our extinction.

“I hope you will consider sending a senior manager in your organization to the Stanford Sloan Program. Sloan Fellows graduate with the knowledge and confidence to lead global enterprises.”

Robert L. Joss
Philip H. Knight Professor and Dean
Stanford Graduate School of Business
Sloan Fellow 1965–1966

The Stanford Sloan Program is a full-time master’s degree program in general management for executives with at least eight years’ experience and high potential for senior-level positions. Its principal objectives are to develop a top management perspective; increased appreciation of the global nature of the social, economic, political, legal, and ethical responsibilities of management; and greater understanding of key functional areas including finance, organizational behavior, marketing, decision analysis, and strategic planning. The 48 Sloan Fellows are expected to have the sponsorship of their employers and to resume careers with those employers at the conclusion of the program.

For brochure and application materials, contact:
Bruce McKern, Director, Stanford Sloan Program
Graduate School of Business
Stanford University, Stanford, CA 94305-5015
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Email: sloanadmin@gsb.stanford.edu
Web site: http://www.gsb.stanford.edu/sloan
Application deadline: February 15, 2002
Grassroots Organizing in South Africa

Writing a Business School case study of the Amy Biehl Foundation Trust became an exploration of organizational and personal identity. BY EVERETT HARPER, MBA ’99

EAR THE END of South Africans’ struggle to topple apartheid, four boys whipped up by anti-white rhetoric knifed to death a young Fulbright scholar who was working for human rights in Guguletu township outside of Cape Town. The scholar was Amy Biehl, a recent Stanford graduate and one of six children of Linda and Peter Biehl of La Quinta, Calif. After several visits to Guguletu, Amy’s parents founded an organization dedicated to preventing continuing violence in South Africa’s impoverished townships. Their well-publicized journey has become a modern fable. Like the stories of the visionary Nelson Mandela and of South Africa itself, it conveys universal themes that ignite emotion and invite reflection.

At the Business School, however, Professor Greg Dees hoped to find out more: Could the Biehls’ story be used as a parable to help teach students in the School’s social entrepreneurship course how to build a successful grassroots organization? When he offered me the opportunity to write a case on the Amy Biehl Foundation Trust, I jumped at the chance. I was excited to use my business education and for-profit and nonprofit experience to help raise the visibility of social entrepreneurship—the innovative application of business principles to the creation of social value. What I did not expect was a deeply affecting personal experience that changed my perception of myself and of social entrepreneurs.

I had been to South Africa once before—on an MBA study trip in 1998 that was the highlight of my Business School experience. The case study offered me the chance to experience daily life in Cape Town—walking the streets, dancing to qwaqwa music, playing soccer, or drinking rooibos tea at the café. However, South Africa’s stark contrasts—of wealth amidst poverty, of sudden violence and warm generosity—challenged my comfortable notions of success, failure, black, white, colored, right, wrong.

To live an “ordinary” life in Cape Town is to encounter extraordinary daily events—and to grapple with the consequences. I felt this struggle most strongly in terms of my social identity. My experience with white supremacy in the United States—ranging from being passed by a taxi in favor of a white passenger to physical confrontation—had served to remind me that my identity as an African American man was fixed for most people, most of the time. In South Africa, my identity could change in minutes, without warning.

Take, for example, the casual eye contact, nod, or “What’s up?” that is a common greeting among black Americans. In Cape Town, my greeting was sometimes returned with a quizzical look. Once, a “brother” came up to me speaking Afrikaans, figuring that I was “colored,” by apartheid’s lingering definitions. Another “brother” asked me directions in Xhosa, one of the black languages. The indifference I often felt from the white elite would change to friendly curiosity as soon as they heard my American accent. While I expected trouble from Afrikaners, most were warm and some were beyond generous with their help in my research. In short, I could be black, colored, or American on any given day, with any given person, and I had few ways to predict.

I know “who” I am as much as anyone, but “what”
Virtual Class on Biehl Foundation Case

Alumni are invited to join our first-ever online case discussion on Thursday, September 20, at 5 P.M. Pacific time (8 P.M. Eastern time). Professor James Phills, who has taught the Amy Biehl Foundation Trust case in a course on philanthropy, will lead the “virtual classroom,” along with Everett Harper, who authored the article at left and researched the case. All you need is an Internet connection to participate in or observe this experiment, which will provide useful feedback for further Internet-based academic events. Register with an email to gsb_newsline@gsb.stanford.edu, and we will reply with simple instructions and a copy of the full case study.

EIGHT YEARS AFTER their daughter’s murder, Californians Linda and Peter Biehl spend 60 percent of their time in South Africa, where she died. They have built a foundation in her honor, dedicated to preventing violence in South Africa’s impoverished townships. They oversee a staff of five people and several interns and fund 11 programs in health, safety, recreation, education, and entrepreneurship—all headed by South Africans.

Funny, smart, opinionated, and warm, Peter and Linda are committed above all to the townsmen of Guguletu. It is immediately clear to any visitor that they have developed personal relationships with many of the people in the town—relationships that are the result of many hours spent talking, listening, and acting together. Relationship-building informs the funding strategy of their foundation. Grassroots and entrepreneurial, the Biehls often rely more on their network of relationships and the initiative of a grantee than on formally written funding proposals. In the oral culture of Guguletu, where the “township telephone” is more effective than the police, their relationships are a critical part of their early successes.

The Biehls also created the Community Bakery, a for-profit business delivering basic white and brown bread (called Amy’s Bread after their daughter who was killed there) to Guguletu township. Run by a South African, the bakery employs 16 people and distributes bread through the residents’ homes. As I researched this case, I sat one day in Mrs. Fundani’s living room as kids bought loaves right from the front door. The bakery is intended to generate profits to fund future foundation programs and to offer a model useful to other impoverished townships.

The case focuses on two critical decisions faced by Peter and Linda. First, they had to decide whether to suspend the funding for one program after learning about potential financial mismanagement and abuses of authority by the program’s founder. Although it sounds clear-cut, there is enough ambiguity in “potential” and enough risk in alienating a powerful member of the community that the wrong decision could damage the Biehls’ hard-won relationship with Guguletu.

The second decision involved the bakery. After six months, the demand for bread exceeded original estimates and the bakery staff was heady with success. Adding a second shift of workers proved controversial, however, and escalated into a strike. Students who read the case study are asked to put themselves in the Biehls’ shoes and decide how to respond to the bakery manager’s phone call informing them of the strike. They must consider the unique agreement between the workers and the bakery, wage rates and job scarcity, workers’ rights in South Africa, competition, and operations, as well as issues like security in a country where violent strikes are a well-used negotiating tactic.

The fundamental issue in both decisions is trust. The Biehls won the trust of residents of Guguletu, yet like social entrepreneurs in most organizations with for-profit/nonprofit organizations, they eventually faced a moment when they were forced to realize that while they share the same mission as their constituents or customers, they have different interests and objectives—some of which are in conflict. —EH

I am changed in South Africa from an assumption to a question, opening a range of possibilities inconceivable in the United States. Yet each possibility—black, colored, American—had its own set of consequences, privileges, and sacrifices. As an American, I could command attention and respect, but I could slip into arrogance. As a black man, I could be credible in the townships but I could slip into arrogance. As a black man, I could enjoy modest status, but I could not share the language. In a colored man, I could be an articulate, recreation, education, and entrepreneur—sometimes in one meeting! Along the way, they consciously or unconsciously make choices about their identity that have consequences for themselves and for their stakeholders. Those choices can be informed by parables—like business cases—that integrate the strategic, analytic, and financial discipline required to sustain an organization. Yet at the core of a compelling identity is a fable—a vision that excites volunteers, attracts funders, and motivates communities.

For me, two statements capture the spirit of this challenge. One is something Linda Biehl once said: “No matter how long we’re here, we’ll never truly understand Guguletu.” The other is from historian Cornel West: “I’m not positive about the future, but I do have an audacious sense of hope.”
When Life Hands You a Pink Slip...

No question. Being let go from a high-tech company produces stress, but it also generates time—time to reclaim your relationships and your passions. BY AMY BUTLER PAULSEN, MBA ‘93

INK SLIPS AND HIRING FREEZES abound in Silicon Valley and other technology meccas these days. My husband and I, and so many of our friends, have watched the demise of our most recent ventures and now face searching for new opportunities in a tight job market. While savvy seekers treat the search process like a full-time job, I have observed something wonderful in all of this upheaval—people spending more time with their kids and rekindling their passions.

I see more fathers picking up their kids from school, playing in the park mid-week, and attending swimming and soccer activities. When we get together with friends, it seems that I hear little about the stock market, even less about stock options, and so much more about Giants’ baseball games with the kids and a spontaneous family vacation to San Diego.

I can attest to this pleasant change. My work shifted from full-time frenzy to part-time consulting in January, and gone with it are the days of 4:30 A.M. emails and arguments with my husband over who will pick up the kids from daycare. I now spend lazy afternoons with my daughters, Talbott and Mia, in the backyard looking for worms and making rivers in the grass for Barbie adventures. I arrive early for preschool pickup and am greeted by my daughter with a hug and a “Mommy!” so filled with joy it makes me want to hold her forever. I also have found the time to write again.

After years of working at frenetically paced companies, the transition is not easy for people like my husband, who was laid off in January. His 12-hour days suddenly became a void of unstructured time. “I immediately tried to put an organized job search in place so that I wouldn’t go nuts,” he admits.

“When you’re not working,” he concedes, “it’s hard to be an upbeat dad. I feel a tremendous amount of financial pressure to provide for my family. Yet I know working for startups that were always struggling meant I brought a lot of stress home to my family. This affects the things I want to do going forward.”

My husband has now found some hours to nurture his garden of heirloom tomatoes. He also enjoys making more time for our children, because he realizes “kids notice who’s spending time with them, and it’s about quantity time, not only quality time.” And I will tell you that he looks great, having put some effort into training for local 10K races.

My classmate Kathy Carrett-Hoyt remembers when her husband, Ned, a startup founder, would leave before their daughter woke up and return when she was asleep. Now that the startup’s doors are closed, Ned cares most about being with his family, doing what he enjoys, and “working to live, not living to work.”

Many parents find part-time consulting work to pay the bills and spend more time with their families. As a consultant, neighbor Bruce Bower taught his son to ski and now cooks dinner for his family each night. He believes “getting laid off every few years is healthy. You’ve got to take advantage of the time you have.”

Katherine Noesen, MBA ’94, says she “succumbed to the workaholic nature of Silicon Valley,” which provoked her to work “a solid year of 16-hour days.” The office closed, but Katherine’s interests unfurled. She has learned to surf, taken a trip to Turkey, and reconnected with lapsed friends.

As for my husband and me, this experience has helped us more clearly understand our priorities and savor the days we have with our kids and each other. Our Saturday “date nights” with expensive dinners and baby sitters have become take-out burritos and twilight at the park with the girls, but our relationship is no worse for wear. And now when my daughter asks me each morning, “Is today a mommy and daddy day?” I answer “yes” with the joy that makes my daughter want to hug me forever.
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* These dates may be subject to change.
Never Say Never

Some alums who are retiring from their careers admit it has nothing to do with resting on their laurels. They have more to do, more to give, and they are asking, “WHAT NEXT?”

When Phil Trapp retired as president of TRW Financial Systems, he promised himself he would never again work as a chief executive. The hours were too long. The work too stressful. Traveling all over the world from his base in Virginia, he missed seeing his grandchildren, who were growing up in the Bay Area. After more than 30 years of work, Trapp, SEP ’73, had enough “go to hell” money to walk away forever. Yet it took an agonizing case of shingles for him to slow down and assess his life.

“I was hurting so bad I could hardly move,” Trapp recalls. “I started thinking that what’s important to me is family, friends, and community, and I realized I was living life backward from how I wanted to live.” Trapp left TRW in 1998 and moved back to the Bay Area. He now lives 20 minutes from his grandchildren.

But retirement in the old-fashioned sense of kicking back and watching the minutes tick by on a gold watch from the company store wasn’t in Trapp’s blood. To stay intellectually engaged, he spent a couple of years consulting. And when one of his clients, a third-generation knowledge navigation company called ZNOW, asked him to become CEO, Trapp quickly forgot his earlier pledge. Within weeks, he was working 80 hours a week as the start-up firm’s CEO, CFO, and head of sales and marketing.

Not many years ago, “retirement” was understood to be the well-deserved reward at the end of a long rainbow of work. Today, the concept of retirement no longer implies a uniform path into old age and may be an “antiquated notion,” Stanford psychology professor Laura Carstensen, an expert on adult development stages, said at a recent campus conference. Other panelists agreed that with the potential of so many years remaining after the age of 65, policies should encourage a more flexible system of work and breaks. For some GSB alums who are making their own flexibility, retirement has nothing

By Robert L. Strauss, MBA/MA ‘84
James Farrin,
MBA ’60, in
New York, NY

Photograph by
Beth Perkins
to do with retiring at all.

Take, for example, Mike Gibson. After a 30-year career in natural resource development, Gibson, MBA ’72, retired, not knowing what he was going to do other than catch up on some reading. But days after he retired from Colowyo Coal Company in northwest Colorado, he was told that The Nature Conservancy needed a director of its San Luis Valley Program, which includes operation of the Medano-Zapata Ranch, a 1,200-acre parcel that hosts 100,000 Valley Program, which includes operation of the Medano-

The Nature Conservancy needed a director of its San Luis Coal Company in northwest Colorado, he was told that

ic species. Years earlier, Gibson had been impressed by The Nature Conservancy when he was working for Kerr-McGee. He says he almost told them he’d do the San Luis job for free but is glad he didn’t, because his modest salary gives him “a greater sense of commitment” and prevents him from going skiing instead of to the office.

Some might argue that the view from Gibson’s “retirement” executive office window is better than that from any CEO’s. He looks out over a spectacular western landscape that includes three 14,000-foot peaks. Then it’s back to the business of conserving natural diversity, which includes monitoring the fluctuations in the price of hay and bison.

Jim Farrin, MBA ’60, claims to have flunked retirement. Like Phil Trapp, he retired from a high-level position (president of the international division of Mennen) only to find himself drawn back by consulting gigs and start-up opportunities. While recognizing that he is a “prototype workaholic in denial” and that he had been “going like a threshing machine” to put his five children (and wife) through college and grad school, Farrin has no interest in slowing down. He’s now chief operating officer of WorldWater, a small startup that manufactures and distributes proprietary, solar-powered water systems in developing countries.

More unusual than his employment is Farrin’s work as a stand-up comedian. “I have this theory that you should challenge your fears when you’re in your sixties,” Farrin, 65, says. Tired of hearing his kids say that he had a terrible sense of humor, he took a comedy class. The final exam required doing a routine in a club. After several successful appearances, Farrin was about to do his routine again when he learned that he had colon cancer. Three days before his surgery, he was on stage performing—before a really tough crowd. “It was terrible,” he remembers. “No one was laughing.” But Farrin hasn’t let that crowd or the cancer slow him down. As he left the hospital, he told his doctor that he intended to run the New York Marathon. A year and a half later, he did.

“Sometimes I wish I could be reincarnated and rest under a tree,” Farrin says. “But I think that’s not my style. I won’t retire until I’m no longer on this Earth. Joy for me is doing a lot of projects.” Farrin is now thinking about taking up cycling or pursuing a PhD in organizational design. “There’s no reason to slow down,” he says. “You should speed up, because life is linear.”

That’s a philosophy John Wilen, MBA ’84, rejects. For years he watched his father commute four hours a day to demanding executive jobs. Wilen was determined not to follow those footsteps. So as a 20-year-old fresh out of Dartmouth College, he planned to retire by 40. He didn’t know how he would do it, he only knew he would. “Give a guy who has spent his whole career meeting deadlines 20 years to do anything, and the odds are pretty good for success,” Wilen says. In 1998, at age 38, Wilen retired, two years ahead of plan.

To achieve his goal, Wilen “compressed time” by putting in long hours, accelerating his career path whenever the right opportunity presented itself, and making sure that each of his investment decisions served his long-range goal. In each of the four years before he retired, Wilen, by then a senior vice president with PepsiCo, deferred all his salary and bonus, a plan that fortuitously coincided with the explosion of the stock market. “There was a lot of compounding,” Wilen says. An avid golfer, he now lives on the grounds of his Dallas area country club, where he plays at least two times a week.

“After racing—better, faster than everybody else—to stop was tough,” Wilen says. Whenever he saw former colleagues, such as Meg Whitman, CEO of eBay, mentioned in the press, he found himself wondering if he, too, might not have been able to reach the pinnacle of corporate success. But he didn’t wonder long. He and his wife (also retired) now focus their energies on their 2-year-old son, Dustin. “I know freedom is the best perk there is,” Wilen says.

During his career, Wilen accumulated an astonishing

“I need to keep working. I love the business, and I love my family. I guess what I need to learn is how to balance it all.” —GRANT MUNRO

5 million frequent flyer miles while working 70-hour weeks. Now, he’s able to catch up with friends. “I was never there,” he admits. Would he go back? “To work?” he asks incredulously. “There are so many things I’d rather do. It was absolutely beautiful today. I was on the golf course [where he shot a 37 on the back nine] thinking, ‘Everybody wishes they were here.’”

At about the same age that John Wilen began his retirement endgame, Sue Lodgen, MBA ’75, was getting ready to resume her working career. Lodgen had worked as a teacher, researcher, and editor before entering the Business School. While at Stanford, she took courses across the street at the Food Research Institute, an experience that focused her business career on agribusiness.

After six years in finance with two large agribusiness concerns, Lodgen’s impending 40th birthday got her thinking about what she really wanted to do. She had loved teaching (despite never having made more than $7,000 a year) and wanted to return to the field. A chance coincidence got her reacquainted with Harbridge House, one of her earlier employers. They needed someone with a background in finance interested in training. Lodgen signed on.

Twenty years and a number of mergers later, Lodgen was again facing an age-driven milestone, this time at Price-waterhouseCoopers, where the firm had a rule that partners had to retire at 60. With that prospect looming, Lodgen began wondering, “Why am I not retiring now?” As a partner, she no longer was spending the bulk of her time doing
I wasn't in a rut, I was in a trench.”
—DON STIBICH

thought he was ready to retire from his position as a VP at forest products giant Rayonier. “I was tired,” he says. “I went to work and worked to work. I was expecting that I’d be able to enjoy the time off.” But he was wrong.

Despite volunteering with the United Way, Chamber of Commerce, and YMCA, Munro didn’t get “the challenge I thought I might.” Four months after retiring, he had just two hours a day of scheduled activity and was left to wonder, “Then what?” “I’m not the kind of person who can sit still,” he admits.

Munro joined a small partnership in the forest products business. But four years later when he was offered his old job back at Rayonier, he took it. Reflecting on his decision to retire early, Munro thinks a better option might have been to ask the company for a six- to twelve-month leave of absence. Now that he’s returned and is mindful of his heart condition, he’s determined to “let the young guys do the heavy lifting.” In another two years he’ll be able to re- retire with all his benefits. Still, he expects to stay on for as many as another seven years. “I think the answer is that I need to keep working,” Munro says. “I love the business, I love the company, and I love my family. I guess what I need to learn is how to balance it all.”

Like Grant Munro, Don Stibich, MBA ’58, spent his entire career in the forest products business. After 40 years with Longview Fibre, he began entertaining thoughts of retirement just as his wife was diagnosed with ovarian cancer. Then, in January 2000, he blacked out at a board of directors meeting. After learning he had meningitis, his first thought was, “Good grief, I’ve got work to do.” But the infection didn’t honor his workload and knocked Stibich off his feet for two months. During this unplanned leave, he began thinking about what he was doing. “I had done it all and I wondered what else there is,” he says. Despite a satisfying career, he felt stuck. “I couldn’t see anything around me. I wasn’t in a rut, I was in a trench.”

With his wife growing increasingly ill, Stibich decided to leave Longview to care for her. She passed away in November of last year, and he has no intention of going back to work. Now he finds himself following in his wife’s footsteps as a volunteer by applying his Spanish-interpreter and business skills to projects for the Hospice of Marin, Marin General Hospital, and the St. Vincent de Paul Society. After 42 years with one company, he says, “Suddenly I’m a social worker” and heads off to visit an abused woman with a young baby. “I’m going to see if I can help out.”

Charlie Wood’s epiphany came on an airplane flight. Having been in financial services for nearly 25 years, Wood had enough frequent flyer miles to always be upgraded. He had so many miles that on United he was the first person in first class to be asked by the flight attendant about his meal choice. “It became really important to me that they asked me before anyone else in the cabin,” he says. “When I realized that, I realized my priorities were misaligned.” Wood, MBA ’76, retired from investment banking. He thought he’d finally figured out his ideal retirement job when he “unretired” to become the CFO and director of development at Loyola High School in Los Angeles. It wasn’t meant to be.

“I thought I would be there forever,” Wood says, “but I was moving a bit too quickly for the president. Candidly, I was crushed that it didn’t work out.” Wood regrouped and redirected himself toward a field he considered briefly before enrolling at the GSB: medicine. Last fall he completed training to be an emergency medical technician (EMT) and an emergency care technician (ECT), the latter being a “nurse extender position,” like that played by the character Malik on ER. While still in training at UCLA, 53-year-old Wood had his own ER experience when late one night a young man was brought into Pasadena’s Huntington Hospital Trauma Center with a gunshot to the groin. With blood gushing all over, Wood raced him to the operating room. Most of the time, however, Wood assists with setting up EKGs, chest tubes, suturing, and dealing with “barf and code brown.”

Wood views his work, which pays about $13 an hour, as volunteer service. But, he says, “I get a real feeling that the patients care about what I’m doing.” He contemplated joining the Pasadena Fire Department reserve, but his wife decided that would represent “over-commitment.” For a greater intellectual challenge, he resuscitated CE Peterson, a private financial consulting firm, where he puts in greater intellectual challenge, he resuscitated CE Peterson, a private financial consulting firm, where he puts in 20 or 25 hours a week. “I don’t ever plan to retire in the old sense. The key is satisfying my intellectual curiosity. I’m trying to figure out what I’m going to do until I’m 75 or 80.”

And what about Phil Trapp, who said never again when he left TRW back in 1998? He’s cut his workweek at Znow back to a more manageable 60 hours a week and has a plan in place to transition out of his CEO role. “Read my lips,” he says. “Never again. Funding an early-stage company is brutal. It’s too much work.” This is his last CEO assignment, he told his wife, Melody. “Of course, sweetie,” she told him. “I’m sure it is.”
Sue Lodgen, MBA '75, in Chicago, IL

Photograph by Ralf-Finn Hestoft
We live in an extraordinary time. The Internet and related technologies have opened new forms of communication, reduced the costs of many kinds of market interactions, and brought firms and consumers around the globe into closer proximity than ever before. At the same time, many of the impediments to efficient market performance are being swept aside.

This is creating a tremendous amount of economic value. As with any dramatic technological change, the most obvious and earliest effects are incremental—we find easier and less costly ways of doing the things we were already doing. Over time, however, the shifts are more drastic as we discover that we can do new things or completely restructure how we conduct age-old business. So, too, the current technological change will drastically affect business transactions. Although it will take time to work its way through the system, it is restructuring entire supply chains and markets and the industries, firms, and labor forces that participate in them.

The complexity of these changes makes it difficult for managers to plan accordingly. When the entire landscape is changing, navigating by just peering at the road ahead is dangerous. You need to head for higher ground to try to understand the major forces at work and their likely impact.

The vision of improvement in supply chain management is not new, and neither are attempts to realize it. The vision is this: Information about what consumers want is rapidly relayed back to manufacturers who, using just-in-time techniques and flexible manufacturing technology, quickly produce and deliver the product to the customer. By linking all the relevant economic actors electronically, the Internet makes this vision much more plausible.

One of the best examples of this approach is Dell Computer’s custom assembly and distribution of personal computers. Selling direct to end-consumers, Dell’s strategic approach has several advantages. It largely avoids having to estimate demand. By producing to order, Dell can customize the product to precisely what the customer wants and essentially eliminate finished-goods

New technology has led to the steady improvement of supply chains, but dramatic restructuring lies ahead. Companies that want to reap the benefits will have to adapt.
Inventories throughout the supply chain.

The Internet and World Wide Web lend themselves to this kind of process. The ability to check for component compatibility in real time is valuable. Also, the richness of the Web and the ease with which a menu-driven interface can serve up exactly the information desired (product attributes and comparisons, for example) provide information that is very hard to match across a dispersed set of retail stores whose salespeople have varying degrees of skills. Moreover, the Internet store is always open.

What is striking about the Dell example, however, is not how successful a model it is, but how few other examples there are that deploy the new technologies to restructure the entire process by which supply chains operate. So far, this has largely been a distribution revolution rather than a manufacturing one. Most electronic commerce has involved changing how existing goods and services find their way down the supply chain to consumers, rather than how they are produced in the first place.

In supply chains, value is added as goods and services flow from the most basic input providers (raw materials manufacturers, for example) to final consumers. While goods and services flow largely down the chain, information flows in both directions. For example, information about what is demanded at successive stages passes up the chain while information about supply conditions such as availability, pricing, time-to-manufacture, and so on passes down. It is precisely because this is an information-intensive process that the Internet holds the potential to significantly increase the amount of value created.

Benetton is a spectacular example of a firm that coordinates a supply chain that includes every step in the manufacture and distribution of its clothes, all the way from styling and sourcing of materials through the operation of the retail stores. Yet although Benetton coordinates all of these steps it actually performs very few of them. Apart from dyeing (which is a core capability necessary to produce the hallmark Benetton colors), running a very large automated distribution center in Italy, and ensuring that designs embody the Benetton “look,” Benetton owns none of the many firms that form its supply chain. It outsources manufacture, independent agents do sales, and most stores are independent franchises. Benetton mostly serves as a vertical architect, coordinating the functioning of the rest of the chain.

This form of supply chain governance enables the vertical architect to focus on what it is good at and select suppliers that are best of breed for each of the other steps. In an increasingly global market, the vertical architect can choose suppliers for each part of the supply chain from those regions that specialize in them and where factor costs are the lowest.

But coordinating the activities of sequential firms in a supply chain generally requires changes in business process that may be time-consuming and costly. These include restructuring information flows, incentives, roles, and responsibilities. More importantly, they require adaptation by multiple firms, each of which has its own routines, organizational structure, strategy, and objectives. Change across the boundaries of firms is notoriously more difficult than within a single firm.

For example, any of the adaptations that adjacent firms in the supply chain must make are specific to the relationships between those firms. Once the partner firms have invested in compatible technology and processes, they have created costs if they switch to other partners. Fear of being locked in by switching costs often makes firms reluctant to enter into these relationships in the first place. It is no wonder, then, that considerable effort is going into technical solutions that lower switching costs.

Additionally, while new technologies like XML provide templates that enable firms to share information yet maintain compatibility with legacy systems, each industry has to agree on industry-specific implementations of these templates. A variety of initiatives are under way, both proprietary and open, to develop standards. An example is RosettaNet, a not-for-profit organization attempting to set XML standards, primarily in the electronics industry.

The new technologies facilitate the steady and incremental improvement of existing supply chains, but they can also dramatically restructure them. Electronic markets—Internet-based groups of buyers and suppliers within an industry, geographic region, or affinity group—have proliferated enormously over the past few years.

These markets take a variety of different forms and they tackle different sets of problems. Consider: Boeing and Airbus in the aerospace industry and General Motors and Toyota in the automobile industry share many of the same suppliers. This is true both within each industry and across them. GM and Toyota typically share auto parts suppliers, whereas the common GM and Boeing suppliers usually sell more generic items like paper, pens, and personal computers, supplies that many industries use.

Another important distinction, which can relate to either industry or inter-industry markets, is whether the intermediary enables transactions or simply provides information that facilitates interaction. The more important of these intermediaries are clearly those that can facilitate transactions. The opportunity to create value from trading hubs like these is potentially huge.

QRS Corporation is a case in point. A business-to-business hub in the relatively fragmented U.S. retail industry, the Emeryville, Calif., company provides electronic-commerce and merchandising-management services to many of the nation’s leading retailers and their suppliers—companies such as Macy’s, Talbot’s, J.C. Penney, Wal-Mart, Sears, and Federated Department Stores, and Liz Claiborne, Donna Karan, Sara Lee, and Polo. QRS facilitates electronic data exchange between its customers, provides a database of 80 million vendor bar codes for retailers to download, enables retailers and vendors to track sales data and arrange and track the shipment of goods, and captures and analyzes in-store scanner data.

But you don’t have to run a hub to profit from it. Member companies also stand to gain. If a hub is created so a large set of firms interconnect through it, each company pays the costs of setting up its systems to connect to others only once.
Casing the INNOVATORS

Included in our book, Creating and Capturing Value, are 22 case studies that contain a wealth of information about technologies, industries, issues, firms, strategies, organizational structures, and the issues electronic commerce poses for students and practitioners. Many are also available on the Web at www.gsb.stanford.edu/research/cases/, where they can be searched by title.

“ERP Overview” and “SAP and Online Procurement Cases” discuss enterprise software systems and analyze how one of the leading firms, SAP, is positioned to compete in the online procurement market. “Siebel Systems, Inc.” describes the booming customer relationship management market and its leading firm. “Qris Corporation” provides background on electronic data interchange and examines the role of an important intermediary. “AOL: The Emergence of an Internet Media Company” examines the role of portals, and the “Webvan.com” case discusses the “last mile” problem in fulfillment and delivery.

Other cases describe issues related to changes in market structure and function, including the growing role played by online auctions (“Online Auctions in 1999”), electronic markets (“E-Markets 2000”), and pricing and branding (“Pricing and Branding on the Internet”). They also deal with channel structure and channel conflict (“GAP.com” and “Nike: Channel Conflict”) and disintermediation (“Disintermediation in the U.S. Auto Industry”).

Another group of cases centers around the opportunities and challenges that e-commerce poses for both established and new companies and the markets for talent and advice that these companies can draw on (including Web development, consulting, venture capital, and so on in “E-Commerce Building Blocks”). “Karen Brown Books” describes the opportunities and risks involved in a possible deal between a travel portal and a traditional publisher of travel guides. “Brokerage.com” discusses the evolution of competition in the brokerage industry, including both online and traditional firms, and provides the context for understanding each group’s competitive strategy.

Additionally, “Babycenter.com” shows how a firm can exploit the Internet to create a novel business strategy and discusses partnering, global expansion, and acquisition issues. “HP E-Services Solutions” examines the challenges a traditional IT provider faces in responding to e-commerce opportunities. To acquire new technology or develop an e-commerce operation, it has to decide whether to organize as an internal venture or a new, separate firm. “Cisco Systems” examines the novel approach that company has taken to fund and then spin in new technology. Finally, “Tradeweave” integrates many of these topics and analyzes the opportunity, strategy, and organization involved in launching an e-commerce venture.

A final group of cases examines how firms’ nonmarket environments affect their e-commerce strategies and behavior. These cases, written by our colleague David Baron, consider privacy issues (“DoubleClick and Internet Privacy”), intellectual property (“Ebay and Database Protection”), and taxation (“Internet Taxation”).

Many of the cases were written by our MBA students and casewriter...
Two New Chairs Endowed

ENDOWED CHAIRS PROVIDE “one of the most meaningful ways of attracting new faculty and rewarding faculty whose excellence merits the distinction,” Dean Robert Joss said in announcing two new endowed chairs at the Business School and the appointment of four professors to GSB chairs for the first time.

John Roberts was named the first John H. and Irene S. Scully Professor of Economics, Strategic Management, and International Business. Haim Mendelson becomes the first General Atlantic Partners Professor of Electronic Business and Commerce, and Management. The new chair holders are Mary Barth, the Atholl McBean Professor of Accounting; Glenn Carroll, the Lane Professor of Organizations; John McMillan, the Jonathan B. Lovelace Professor of Economics; and Maureen McNichols, the Marriner S. Eccles Professor of Public and Private Management.

The Scully chair was created with a gift from John and Irene Scully of Marin County, Calif. John Scully, MBA ’68, is managing director of SPO Partners & Co., a private investment company and merchant bank. He is a member of the Stanford Board of Trustees and the GSB Advisory Council. The General Atlantic chair was the result of a gift from five partners of the General Atlantic venture capital firm: Steven A. Denmark, MBA ’78, senior managing partner; David C. Hodgson, MBA ’82; William E. Ford, MBA ’87; Chilton S. Robbins, MBA ’84; and Tom C. Tinsley, MBA ’78.

Mendelson is codirector of the Center for Electronic Business and Commerce and directs the School’s Executive Program in Strategic Uses of Information Technology.

Four faculty members who were awarded endowed chairs for the first time are from left: Maureen McNichols, John McMillan, Glenn Carroll, and Mary Barth.

Robert Joss

Robert Joss directs three Business School initiatives and applies economic and strategic analysis to management problems, especially those in international businesses.

Barth’s work deals with financial reporting issues important to practitioners and regulators, such as goodwill, international standards, earnings momentum, and intangible assets. In January, she was named to the new 14-member International Accounting Standards Board, where she is the only American academic member.

Carroll pioneered the study of population dynamics in organizations. His work on the political, regulatory, and normative environments of organizations has also been influential.

McMillan is an economic theorist who also analyzes business organizations in different countries. His work on China and Vietnam provide new insight into the use of incentives to improve performance of state enterprises in centrally planned economies.

McNichols’ research is on the nature of information provided to capital markets through alternative institutional arrangements. She has examined the informational roles of financial analysts, financial statements, and management’s discretionary disclosures. She is also known for her work on environmental liabilities.

FOUR ASSISTANT PROFESSORS AT THE GSB were recently promoted to associate professors, and two associates were named full professors—all effective September 1.

The new associate professors are Jennifer Aaker in marketing, Harrison Hong in finance, John Jost in organizational behavior, and Ezra Zuckerman in strategic management. Promoted to full professor are William Barnett and James Lattin.

Barnett studies competition within and among organizations, and how competition affects the founding, growth, performance, survival, and innovativeness of organizations. Lattin directs the Marketing Management Program for executives and studies purchasing behavior, database marketing, and customer acquisition and retention.

Aaker, who received the GSB’s 2000 Distinguished Teaching Award, studies culture and persuasion and how both affect markets. Hong’s research involves asset pricing and trading. Jost studies intergroup relations and political psychology. Zuckerman employs social theory to analyze social networks, financial markets, and corporate strategy.

JAMES MARCH, the Jack Steele Parker Professor of International Management Emeritus, recently was elected to the American Philosophical Society, the learned society founded by Benjamin Franklin.

March’s scholarship looks at the behavior of organizations, most recently universities. His book Organizations is considered a landmark in the field of organizational research. He is also professor emeritus of education, political science, and sociology at Stanford and currently directs the Scandinavian Con-
KURT ANDERSEN

The five years following its publication.

article judged to have had the greatest im-

new or improving an existing product fea-

SVEC Hall of Fame space with such

is as much a part of Silicon Val-

SNR International and founder of Joint Ven-

corporation for Organizational Research (Scan-

cor) at Stanford. He was named a Knight,

MARKETING PROFESSOR Itamar Simonson

has received his second O’Dell Award from the

Journal of Marketing Research for an

article judged to have had the greatest im-

market share.

MANU PURI, associate professor of finance,

and Peter Henry, assistant professor of eco-

nomics, have been named faculty research

fellows of the National Bureau of Economic

Research (NBER). Henry’s work focuses on

the macroeconomic effects of stock market

liberalization in emerging markets. Puri

researches financial intermediation, partic-

ularly related to banking and more recent-

ly to venture capital. NBER researchers, who

comprise more than 500 professors of eco-

nomics and business teaching at U.S. univer-

sities, are the leading scholars in their fields.

BILL MILLER is as much a part of Silicon Val-

ley as the resistance-capacitance audio oscil-

lator—and last February he took his place

in the Silicon Valley Engineering Council’s Hall of Fame next to that instrument’s in-

ventors, the late William Hewlett and David

Packard.

Miller, the Herbert Hoover Professor of

Public and Private Management Emeritus,

is a former Stanford vice president and pro-

vost and a professor in the schools of engi-

neering and business. He also was CEO of

SRI International and founder of Joint Ven-

ture/Silicon Valley’s Smart Valley Network.

Besides Hewlett and Packard, Miller shares

SVEC Hall of Fame space with such

other Stanford/Silicon Valley luminaries as

Russell and Sigurd Varian, Frederick Ter-

man, and former engineering school dean

James F. Gibbons.

CORPORATE RESPONSIBILITY

Private Politics, Corporate Social Responsibility, and Integrated Strategy

David P. Baron

ECONOMICS

Direct Proofs of Generic Finiteness of Nash Equilibrium Outcomes

Srihari Govindan and Robert Wilson
Econometrica, MAY 2003

Frontiers of Development Economics: The Future in Perspective

Gerald M. Meier and Joseph Stiglitz (eds.)

How Democracy Affects Growth

Romain Waczlaiz and José Tavares
European Economic Review (Vol. 45, No. 8), JULY 2001

FINANCE

Analytical Value-at-Risk with Jumps and Credit Risk

J. Darrell Duffie and Jun Pan
Finance and Stochastics (Vol. 5, No. 2), FEBRUARY 2001

Term Structure of Credit Spreads with Incomplete Accounting Information

J. Darrell Duffie and David Lando
Econometrica, MAY 2001

GAME THEORY

Activity Rules for an Iterated Double Auction

Robert Wilson
In Kaylan Chatterjee and William Samuelson (eds.), Game Theory and Business Applications, Dor-

drecht, Netherlands: Kluwer, 2001

OPERATIONS MANAGEMENT

Applications of Game Theory in Operations Management and Informal Systems Processing

Seenu Srinivasan
In Abbie Griffin and James D. Hess (eds.), Proceedings of the 15th Paul D. Converse Sympos-

ium, Chicago: American Marketing Association, 2001

ORGANIZATIONAL DESIGN

The Innovative Organization: Why New Ventures Need More Than a Room of Their Own

Jonathan Day, Paul Mang, Ansgar Richter, and John Roberts
McKinsey Quarterly (2nd Quarter), 2001

ORDER OF MERIT IN 1995 AND A COMMANDER OF THE ORDER OF THE LION OF FINLAND IN 2000 IN HONOR OF HIS RESEARCH AND WORK WITH SCANCOR.

STANFORD BUSINESS AUGUST 2001
MULTINATIONAL FIRMS TODAY value cultural diversity. While this appreciation of culture has been a comparative advantage for many companies, some firms have made costly mistakes with diversity programs by overemphasizing the cultural backgrounds of employees, partners, or customers, offending their intended beneficiaries by conveying a stereotypic view that individuals are mere reflections of their culture—that individuals can never see beyond their cultural lenses.

So how can firms understand and appreciate culture without overemphasizing or stereotyping it? Research conducted by Michael Morris, GSB associate professor of organizational behavior, sheds new light on this question and uncovers how traditional ways of studying cultural influence may have misled management and marketing researchers.

Researchers have traditionally assumed that individuals internalize culture in the form of basic personality traits or value orientations. “Those who take this approach assume the ‘lens of culture’ is like a permanent contact lens implanted in your eyes in childhood, which then continually and pervasively affects what you see,” says Morris, who is a leading researcher in psychology.

In contrast, Morris’s approach, rooted in cognitive and social psychology, emphasizes the dynamics of when culture switches on and off. His model of culture as knowledge assumes that an individual’s cultural lenses are “more like sunglasses—tools that you carry around with you but which shape your perceptions only when they are put into use.” Yet, this does not imply that individuals can deliberately control the influence of their culture. “Cultural knowledge structures automatically activate under certain conditions to filter information from the world that the individual processes,” says Morris. “They act more like sunglasses that automatically darken when you walk into the sunlight.”

This begs the question, what causes one’s cultural lenses to kick in? Morris and his research colleagues set out to address this through experiments on perception, decision making, and conflict resolution at the Business School’s Behavioral Research Laboratory and at parallel facilities abroad. Results, consistent with what psychologists have long known, showed that when people are busy or distracted, they rely on prior knowledge to filter out details of a problem. Morris found that under these conditions, cultural differences were magnified: When solving managerial problems, U.S. participants tended to emphasize priorities of individuals, while Hong Kong participants tended to emphasize priorities of groups.

Another cultural trigger was uncovered in studies Morris conducted with Business School marketing professor Itamar Simonson and Donnel Briley, PhD ’97, now assistant professor at Hong Kong University of Science and Technology. These studies found that when decision makers are required to articulate a defense for their decisions, their choices are shaped by cultural knowledge.

In recent work with Business School researcher Ho-ying Fu, Morris has studied a more intriguing triggering condition. Cultural knowledge is more likely to be activated in an individual’s mind when it has been “primed” by recent reminders of one’s culture. Priming is at work “when an American manager living abroad sees a John Wayne movie and then, without intending to, thinks about the next problem he encounters in more American terms,” Morris says.

While the psychology of priming reveals that people can be manipulated through their culture, it also reveals how they retain some control over the influence of culture. People engage in active self-priming all the time. Expatriates surround themselves with reminders of their homeland—cuisine, music, pictures, movies—so as not to forget their distinctive cultural feelings and habits.

At the negotiation table, the notion of priming has enormous implications: Differing outcomes in negotiations can be engineered by setting the right atmosphere, since the environment determines which cultural “script” for negotiation will shape the outcome. For instance, Japanese scripts allow for more ambiguity in the settlement of a deal, so “if you’re an American firm exploring a joint venture with a Japanese firm, and you prefer a relatively ambiguous contract, then you should meet your counterparts in a Japanese setting, which will trigger Japanese scripts,” Morris says.
Although people cannot control the cultural process that activates their cultural lenses, they can control the conditions that determine whether culture will kick in. By understanding these dynamics, firms can more effectively respond to cultural differences in their customers, employees, and competitors. —HELEN K. CHANG


SEC Reforms and Executive Pay

WITH AN ECONOMIC SLOWDOWN under way this year, fat executive pay packages are once again coming under tough scrutiny. Of course, the hue and cry about overpaid chief executives really started a decade ago. The protestations triggered Securities and Exchange Commission reforms that required companies to prominently disclose executive compensation details that previously had been buried in the fine print of shareholder proxy statements. As a result, the particulars on how much top executives make are now readily available for all to see. The new regulations, adopted in 1992, also permitted shareholders to put executive pay to a vote for the first time.

The SEC’s aim was to empower stockholders and bring CEO salaries in line with company performance. But did it? Recent research conducted by Karen Nelson, an assistant professor of accounting at the Business School, reveals that investors viewed the change in proxy laws as more a hindrance to business than a tool to keep salaries in line.

Nelson’s study looks at the effects of the proxy reforms in two ways. First, it examines the stock market’s reaction to the regulatory changes as they were announced and implemented. Second, it looks at compensation proxy proposals and votes between 1992 and 1995 at 64 corporations. Through this two-part study, Nelson and her coauthors, Marilyn F. Johnson, associate professor of accounting at Michigan State University’s Eli Broad College of Business, and Margaret B. Shackell, assistant professor of accountancy at the University of Notre Dame’s Mendoza College of Business, determined that the stock market had a negative reaction to the SEC changes. They also found that the proxy reforms increased political pressure on firms regarding executive compensation—but not necessarily at the firms where executive pay was most at odds with company performance. “The idea was that investors would be able to take the proxy, see how executive performance was stacking up and look at their compensation, and say, ‘OK, is this in line?’” says Nelson.

To achieve this goal, the SEC made two main changes to its regulations. First, the SEC required companies to more prominently disclose in corporate financial statements the compensation, including a dollar value on stock options, of their five highest-paid employees. The second change transformed proxy bylaws so that any shareholder with either $2,000 worth of shares or 1 percent of a company’s stock could submit a proxy on executive compensation packages. Prior to this regulatory change, determining executive compensation was considered “ordinary business” and not subject to shareholder voting.

One probable reason for the market’s negative reaction to the proxy reform, Nelson says, was the likelihood of small, unsophisticated shareholders putting forth proposals that made poor business and strategic sense. For example, a proxy at BellSouth by a small shareholder proposed that the CEO’s compensation be limited to no more than two times what the president of the United States makes on the grounds that no corporation is more complex than the United States. While BellSouth responded that it was not practical to set an arbitrary salary level well below that of market level, the proxy still received 15 percent of the vote. “The downside is that it brings out of the woodwork all of these investors who have a political agenda, who have a personal agenda, and who don’t understand how compensation should be set,” says Nelson. “In particular, it brings out people who are focusing solely on pay levels or levels of pay for performance.”

While the SEC reforms did increase political pressure on firms regarding executive compensation, the companies that received the most shareholder proposals on the matter were not the ones where executive pay was most out of whack with company performance, but those that were politically visible, says Nelson.

However, Nelson also found that the actual votes on compensation proxies did reflect whether executive compensation was in line with the company’s performance. Nelson notes that while small, unsophisticated stockholders can put forth proxies, it is the large institutional stockholders who tend to decide the vote.

—MARGARET YOUNG

Stock options have become commonplace additions to compensation packages in recent years. Yet, the experts say stock options are lousy incentive mechanisms for motivating rank-and-file employees at the largest companies to work hard. Consider, for example, an ambitious, newly minted MBA at a multibillion-dollar company who creates $1 million in shareholder value for his company. Through his stock options, the employee might personally reap a return of less than one dollar—hardly enough motivation for a trip to the break room vending machine, let alone an extra hour in the office. Other ways more closely tie an individual’s salary to his performance, such as sales commissions or a manager’s subjective evaluation.

Why then do large companies continue to use stock options as incentives when they have no direct incentive effects? The reason, says the GSB’s Paul Oyer, is this: Stock options can serve as salary buffers to keep workers from leaving their firms when salaries or other benefits start to rise in the labor market around them. Oyer, an assistant professor of economics who has studied stock options extensively, specializes in a growing area of HR management known as personnel economics.

While the connection between market wages and stock options is not entirely new, Oyer’s theory posits that stock options, and other compensation based on firm performance, help large companies design pay packages that will, when costs of employee turnover and renegotiating pay packages are high, retain workers even through wide fluctuations in market wages. “My argument has nothing to say about startups,” says Oyer. “Their stock options are very strong incentives.” Instead, Oyer’s research addresses his initial puzzlement over the prevalence of stock options and other risk-bearing compensation schemes in risky industries, since individuals by nature are averse to risk.

Oyer found that stock options are effective in industries where individuals’ market wages vary widely, in tight labor markets where worker replacement costs are high, and when the specific sector of a particular industry experiences greater common shocks, such as a sudden downturn in product demand.

These conditions are borne out in the recent rollercoaster fortunes of the high-tech economy. At the height of worker demand, wages rose to a certain point, yet workers continued fielding outside employment offers. Rather than making counteroffers, companies gave employees an incentive to stay with stock options that increased in value at a rate equal to the outside offers.

As the economy slowed, those same companies have benefited in the down market. “When the market was hot, companies did not make the high market wages a permanent fixture of their employee wages by promising them x dollars year in and year out, and then have to go in and reverse that when the demand for workers slowed,” says Oyer.

Oyer’s economic model examines the ways a large company can design a pay package so that a potential employee is willing to take the job, yet the company does not pay more than necessary to get the employee. Oyer’s model considers how the firm must account for three costs: negotiating with current employees (or replacing them), passing risks to employees, and overpayment of wages. Faced with these costs, a firm has three ways it can tackle its compensation strategy.

First, the firm may choose to pay the costs of renegotiating pay every time an employee gets an outside offer or at every major fluctuation in market wages. “Wages are adjusted up or down according to the spot market,” says Oyer. Companies may use this compensation method when wages do not often change or when employees are especially averse to risk.

Second, a firm may write employment contracts that include salary and stock options. If options, or some other measure of the firm’s performance, are highly correlated to the labor market outside the firm, then the company can make the employee virtually impervious to outside opportunities. Even if the value of its stock options tanks, the firm can expect to retain employees because outside employment offers will have diminished. Employees allow part of their pay to be contingent on firm performance if they are compensated for the corresponding risk.

Finally, the firm may make some amount of pay con-
tingent on firm profits but lower the employee’s risk premium by fixing his total pay above his market wage. The company might do this when the costs of renegotiating pay are high and the correlation between the firm’s stock price and the employee’s outside opportunities is low. For example, a Web master at a financial services company may be paid more highly than his peers in the financial services industry because his market opportunities are tied more closely to those in the high-demand technology sector.

In related research, Oyer is analyzing data to determine why some firms give stock options to all employees and when options have been successful. Oyer is seeking confidential data from large companies willing to contribute to this ongoing effort. —HELEN K. CHANG


Earning the Right to Indulge

T WENTY YEARS AGO American Airlines set the marketing phenomenon of frequency programs on fire with its AAdvantage frequent flyer program. Since then, myriad businesses from supermarkets to toy retailers have latched on to loyalty programs as a way to lure and keep consumers. Not all have succeeded; Chili’s Frequent Diner, for one, never took off. In the last two decades, marketers have realized that a sophisticated understanding of consumer motives and incentives can make or break an effective frequency program.

Business School graduate Ran Kivetz, PhD ’90, and Itamar Simonson, the Sebastian S. Kresge Professor of Marketing, have embarked on a broad research effort to understand why customers join loyalty programs and how they use them. They recently completed a paper that examined how the amount of effort consumers must expend to get a reward—how many miles, points, or purchases they must accumulate—affects the types of rewards they prefer. Kivetz and Simonson found that the more effort required, the more consumer preferences shifted from necessity rewards, such as a grocery or gasoline voucher, to luxury items, such as spa certificates, gourmet dinners, or cruises.

The research is based on surveys of 1,100 consumers. Participants were asked to choose among different rewards or decide whether they would join various frequency programs. All were based on actual programs, including a car rental program, a department store program, and an online shopping scheme. Various participants were offered different program requirements: 10 versus 20 car rentals, $2,500 versus $5,000 in store purchases, or 12 versus 24 online purchases. In all three cases, more consumers chose luxury items when program requirements were high. For example, when the frequent Internet shopper program required only 12 online purchases to receive a reward, 51 percent of the participants chose the luxury item. But among those who were told they had to make 24 online purchases for a reward, 73 percent chose the luxury item. “Consumers seem to feel more entitled to luxury goods when they ‘earn’ the right to indulge by exerting effort,” says Kivetz, who is now assistant professor of marketing at Columbia University Graduate School of Business.

In examining the psychology behind their findings, the researchers discovered that guilt about consuming luxury items plays an important role in consumer preference toward rewards. Participants in one survey rated themselves in terms of how guilty they felt about purchasing luxury items in general. The effect of effort on which rewards were chosen was strongest among people who reported the most guilt about purchasing luxuries. It was also stronger among consumers who said their efforts to earn rewards were usually made in the context of work rather than pleasure, such as renting a car for work rather than vacation. “Some people need to justify luxuries,” says Simonson. “They feel guilty, and investing more effort in the program helps them reduce this guilt.”

The researchers also wanted to test the impact of different rewards on the likelihood that consumers would subscribe to a frequency program in the first place. When respondents were shown a car rental program that offered a luxury reward, increasing the program requirements from 10 to 20 car rentals did not influence their reported likelihood of joining the program. However, when a necessity reward was offered, increasing requirements from 10 to 20 car rentals led to a significant drop in the number of consumers who said they would join. Repeated experiments with a variety of loyalty schemes produced similar results.

The research has relevance to the design, targeting, and promotion of frequency programs. “For a low amount of points or requirements, you want to offer relatively more necessity rewards,” says Kivetz. “For higher requirements, you want to increase the relative amount of luxuries in the reward mix.” In addition, “a company could personalize the rewards depending on the members’ individual level of effort,” says Kivetz.

—BARBARA BUHELL

### Newsmakers

**WHO’S IN THE NEWS | A Roundup of Media Mentions**

#### Get This Man to California

**SOARING POWER PRICES don’t bode ill for everyone. David Peterson, SEP ’92, wound up on the cover of Corporate Report, Minnesota’s business magazine, for running the state’s best-performing publicly held company in 2000. Peterson is CEO of Minneapolis-based NRG Energy, a spin-off created a dozen years ago by Northern States Power Co. to take advantage of electricity deregulation.**

His first strategy—to build and operate coal-fueled electricity-generation plants—didn’t fly. His second—acquiring old power plants around the world and cleaning them up—positioned NRG to go public in May 2000 and profit handsomely during the following summer from heat waves in the West and Northeast and the power outages of other producers. Peterson has acquired plants in Latin America, Europe, and Asia, making NRG the seventh-largest independent power producer in the world.

#### One Charge Too Many?

**THEY ARE CALLED one-time charges, but many companies seem addicted to repeat write-offs, which eat into investor earnings. When Forbes looked for someone to analyze the phenomenon, they turned to Michelle Clayman, MBA ’79, chief investment officer at the New York investment management firm New Amsterdam Partners.**

Clayman screened for firms that took one-time charges or extraordinary ones in at least three of five years between 1995 and 1999. Thirty-one companies made her latest list, and nearly 70 percent of them underperformed the S&P during the five-year window.

“If you are running your business well, in most cases you wouldn’t need to take three charges in five years,” Clayman told Forbes. But she also pointed out that charges aren’t all equally bad. Retailer Target took four for early retirement of debt that the company was financing at a lower rate, while Kmart took three for closing ailing stores, inventory write-downs, and “redefining” its Internet business. Kmart stock has languished, while Target’s stock trounced the S&P’s 161 percent growth by jumping 512 percent.

#### Soft Money in Software Valley

**IN THEIR EFFORT TO REFORM campaign financing, U.S. Senators John McCain and Russell Feingold both have pointed to Silicon Valley as one of the fastest-growing sources of “soft money,” the unregulated and largest source of funds for the two major political parties. High tech had lagged behind other industries in making political contributions, but the San Jose Mercury News estimated that San Francisco Bay Area high-tech interests made at least $13 million in soft-money contributions during the 1999–2000 campaign.**

Business School lecturer Joel Hyatt chaired the valley’s national Democratic fundraising effort, and Portola Valley investor Ken Eldred, MBA ’68, worked on the Republican’s. “We wanted the Republican Party to know they shouldn’t write Silicon Valley off as the bastion of liberalism they thought it was,” Eldred told the Mercury. Hyatt said his job was mostly convincing executives to get engaged in the process at all: “Once they said yes, there was no negotiating to get $100,000 or $250,000 checks.”

### Dry-Diving for Oil

“The Hive” at oil giant BP is a $500,000 room where geologists, engineers, and drillers gather to view 3-D images of the ocean floor and decide in a few hours what used to take weeks—whether to drill in a particular spot, and if so, how. BP group chief executive Sir John Browne, Sloan ’81, has made it possible for the company to build 20 hives from the savings on one deep-ocean

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**Cisco’s counting on Mike Volpi to rev up the revenues.**

### Turning Up the Heat at Cisco

**BUSINESS WEEK RECENTLY asked, “Can Mike Volpi make Cisco sizzle again?” Last year Cisco CEO John Chambers promoted Volpi, MBA ’94, to chief strategist, with the job of improving revenues—despite the tougher marketplace for Cisco’s high-tech products and the downturn in venture capital spending on the types of startups that Volpi likes to buy for the company.**

With all Volpi’s acquisitions, Cisco hallways resemble “a little U.N.,” the magazine said, adding that the company was “a perfect environment for Volpi’s multicultural upbringing” in Italy and Japan. Paraphrasing Volpi’s father, the head of a Japanese subsidiary of a Swiss bank, the magazine said Mike “learned flexibility from the Italians, subtlety from the Japanese, and pragmatism and fairness from American business culture.”

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**Sir John Browne’s BP hives have the oil industry buzzing.**

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**Cover photo by Mark Jenkinson**

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**Robert Holmgren**
Elizabeth in 1998, he now is one of the “people’s peers” added to the House as part of a constitutional reform.

**Good Companies Sprout Good Execs**

**THE AMERICAN PRESS LOVES** to make superstars of top-ranking business executives, but Jim Collins, MBA ’83, is convinced that good company cultures make good executives, rather than the other way around. Collins, a former Business School lecturer and the coauthor with GSB professor Jerry Porras of the 1994 best-selling book *Built to Last*, is working on a new book about companies that started out mediocre and became great, according to *Fortune*. “After nearly a year of winnowing, just 11 companies were left standing,” *Fortune* says. Who were their CEOs? Collins told the magazine that 10 were insiders, largely anonymous insiders, and most did not have grand strategies but rather made small, incremental changes. Says Collins: “In the 1500s, people ascribed all events they didn’t understand to God.

**He’s a Classic**

WHEN THE *Industry Standard* looked around business schools for “typical” students to profile, they chose second-year student Mark Shaw to represent the GSB. A New Jersey native who says he was fascinated by grocery store products and packaging as a child, Shaw was instrumental in bringing Ben and Jerry’s Chocolate Chip Cookie Dough ice cream to the masses.

Shaw got a taste of startups last summer as “entrepreneur in residence” at Chingari in Palo Alto and told the *Standard* that despite the market downturn, he wants to jump back into a startup after graduation. Associate professor Ezra Zuckerman described Shaw as a “classic”

**Back to the Future**

**DURING THE HEIGHT** of the Internet boom, when some of Stanford’s business and engineering students dropped out of degree programs to start companies, recruiters from traditional firms found it hard to compete and complained that some students even stood them up for interview appointments. Now *Newsweek* reports that at the GSB this spring, “nearly a third of the companies that had signed up to recruit graduating MBAs at the annual Growth Company Career Forum didn’t bother to show up.”

The magazine interviewed several members of the Class of 2002 about the changing recruiting environment and their career plans. “Once upon a time, great job offers piled up like loose change,” wrote Greg Yap in his diary, which *Newsweek* published on its Web site. “As soon as we got rid of some, more would come in.”

Yap, who has a background in molecular biology, has set his sights on a job in the biotech industry. The article also quoted faculty and former admissions director Marie Mookini on the changing environment, which entrepreneurship professor Irving Grousbeck described as “back to reality.”

**Entrepreneurial Debuts**

WHEN SHE READ about the relatively new Girls Middle School in Mountain View, Calif., Lana Guernsey, Sloan ’01, quit her corporate job and asked to teach a course in entrepreneurship.

There, she arranged for seventh and eighth graders to present their business plans before a crowd of 200 people, including a panel of venture capitalists.

“A third of my class—some of whom were not native [English] speakers and some from low-income backgrounds—had come to the school as a result of scholarships,” Guernsey told the *San Jose Mercury News*. “Yet they presented their ideas like kids of privilege and wealth.”

Inspired by her students and the efforts of one of their late parents to sustain school diversity, Guernsey dug into her savings and solicited contributions, raising $125,000 for the school’s Henry Page memorial scholarship fund.

**When Staying Together Makes Cents**

**DUBBED “CARVE-OUTS,”** the Web businesses of Fortune 500 companies increasingly are being spun out as separate businesses and may even become successful, *Fortune* said recently. Among those analyzing when to pick up the carving knife are Theresa Ranzetta, MBA ’94, a partner in the venture capital firm Accel, and David Sanderson, MBA ’90, of eVolution Global Partners.

“When we go into any of these investments, our goal is to create a viable stand-alone business,” Ranzetta told the magazine. “But there may be situations where it ends up becoming more valuable to remain integrated with the parent company.” Added Sanderson: “The Walmart.coms should remain a part of the Wal-Marts.”

Good carve-outs are “non-core but mission-critical,” he said. He cites his firm’s investment in MarketMile, a portal of American Express and Ventro, from which mid-sized companies buy office supplies.

**Venture Capitalists Filling Piggy Banks**

**VENTURE CAPITALISTS** are still raising money but stockpiling rather than spending it, David Witherow, MBA ’92, president and chief executive of San Francisco–based Venture One, told *Forbes* in May. Witherow’s firm and PricewaterhouseCoopers joined forces on a venture industry survey, which found that slightly fewer than 700 companies received $10.1 billion in venture financing in the first quarter of the year, a 40 percent drop from the last quarter of 2000 and the largest quarter-to-quarter drop ever recorded.

Witherow said he would later release numbers showing venture capitalists were continuing to raise money but spending it more slowly, at rates considered normal before the 1999 market run-up.
CAREER SERVICES
The alumni office offers the following career services:

◗ CAREER STRATEGY ADVISING
To schedule an appointment call 650.723.9736.

◗ GLOBAL WORKPLACE
SBSAA launches a new service this fall, giving alumni/ae access to international senior career opportunities.

◗ EMPLOYMENT BULLETIN
Now online as JobTrak.

◗ CAREER WORKSHOPS
Single-topic workshops, held primarily at the Business School.

◗ CAREER RESEARCH RESOURCES
Bibliography, related career reading, and list of outside job search services.

For up-to-date career services information, visit www.gsb.stanford.edu/alumni/career or contact Jennifer Smith at 650.723.9738 or (email) smith_jennifer@gsb.stanford.edu.

LIFELONG LEARNING
The Alumni Association offers many professional development and continuing education programs. For more information, visit our Web site at www.gsb.stanford.edu/alumni/events.

◗ ALUMNI WEEKENDS
Faculty and alumni speakers, panels, and roundtables.

◗ WOMEN’S CONFERENCES
Workshops focusing on issues facing women today.

◗ INTERNATIONAL CONFERENCES
Two- or three-day events in locations outside the United States featuring faculty speakers.

◗ EXECUTIVE BRIEFINGS
Faculty presentations in locations around the world for GSB alumni/ae and other corporate leaders.

◗ LIFELONG LEARNING WEB SITE
A resource to stay up on management issues, upcoming academic programs, faculty research, visiting speakers, suggested reading from alumni/ae and faculty (www.gsb.stanford.edu/alumni/lifelonglearning).

EXECUTIVE EDUCATION & SLOAN PROGRAMS: The Business School offers a variety of executive programs to help you help your firm build and maintain its competitive edge. Contact the Executive Education office at 650.723.3341, ext. 96; (email) executive.education@gsb.stanford.edu; or (Web) www.gsb.stanford.edu/exed.

ALUMNI ORGANIZATIONS

◗ SBSAA CHAPTERS
The Alumni Association sponsors alumni chapters in major cities around the world. For a chapter directory, visit our Web site at www.gsb.stanford.edu/alumni/chapters.

◗ ALUMNI CONSULTING TEAM (ACT)
Alumni teams volunteer as consultants for nonprofit and government agency projects in the Bay Area. Visit the ACT Web site (www.gsb.stanford.edu/alumni/act) or contact Erica Richter at 650.725.3028 or richter_eric@gsb.stanford.edu.

STAYING IN TOUCH
ALUMNI ONLINE DIRECTORY AND SERVICES: These password-protected services enable you to:

◗ Update your contact information and function and industry codes or add your email address.

◗ Locate your Business School friends and classmates.

◗ Search the Online Directory by program/class year, occupation, function, industry, company, or geographic location.

◗ Access the Global Workplace—an international career search service.

◗ Sign up for email forwarding.

◗ Sign up for distribution lists.

Access the Online Directory at http://alumni-gsb.stanford.edu. For questions, email alumni_admin@gsb.stanford.edu.

ADDRESS/PHONE CHANGES
If you are unable to use the Online Directory, mail or fax changes in your business or home phone/address to the alumni office or send email to sevoy@leland.stanford.edu.

REUNIONS
Class reunions are offered at five-year intervals: The 1st, 5th, 10th, and 15th reunions are held in the spring of each year; the 25th reunion is held during the summer; and other reunions are held during fall Alumni Weekend.

CLASS NOTES
In each issue of Stanford Business magazine. Report news to your class secretary or to Class Notes editor Gale Sperry at the Graduate School of Business, Stanford University, Stanford, CA 94305-5015; (fax) 650.725.6750; (email) alumni.news@gsb.stanford.edu.
The Stanford Business School Alumni Association joins 25 of the world’s leading business schools, in 14 countries, this fall to bring outstanding senior international career opportunities to its alumni. The GSB.Stanford Global Workplace is a private career network available to our GSB alumni.

To access this secure and confidential service, log in to the Alumni Online Directory after September 1 at www.gsb.stanford.edu/alumni/directory and use the Global Workplace hyperlink under Resources.

By partnering with peer schools around the globe, GSB.Stanford Global Workplace offers a powerful supplement to the traditional recruiting process:

► Find a challenging position for yourself
► Find an executive for your firm
► Develop your international career network
► Participate in Global Workplace events

Access our new alumni service this fall at www.gsb.stanford.edu/alumni/directory. Have you forgotten or lost your user name and password to access the Alumni Online Directory? Email us at alumni_admin@gsb.stanford.edu.
Welcome Back!

Fall Alumni Weekend and Reunions

October 12 & 13 ’01

Reminisce, Reconnect & Recharge!

More information: 650.723.4046
email: hunt_coral@gsb.stanford.edu