Remodeling School Management
MBAs in Educational Reform

How Tempered Radicals Are Catalysts for Change
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<th>Date</th>
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<td>JANUARY 26</td>
<td>Health Care Technology Symposium, Stanford campus. Contact Igor Brodsky at <a href="mailto:ibrodsky@leland.stanford.edu">ibrodsky@leland.stanford.edu</a></td>
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<td>FEBRUARY</td>
<td>Executive program “Managing Teams for Innovation and Success,” Stanford campus. See Web page or contact</td>
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<td>FEBRUARY 13</td>
<td>Asian American Business Students Association First Annual Banquet, location to be determined. Contact Roan Kang at <a href="mailto:kang_roan@gsb.stanford.edu">kang_roan@gsb.stanford.edu</a></td>
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<td>“Executive Program for Growing Companies,” Stanford campus. See Web page or contact</td>
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<td>FEBRUARY 27</td>
<td>Arbuckle Award Dinner honoring John H. Scully, MBA ’68, Frances C. Arrillaga Alumni Center, Stanford campus. Contact Claudia Diven at <a href="mailto:diven_claudia@gsb.stanford.edu">diven_claudia@gsb.stanford.edu</a></td>
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<td>FEBRUARY 28</td>
<td>Cool Products Expo, Stanford campus. Contact Kim Champion at <a href="mailto:champion_kim@gsb.stanford.edu">champion_kim@gsb.stanford.edu</a></td>
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<td>MARCH 14–21</td>
<td>European Executive Briefing events featuring Professor Haim Mendelson, March 14 in Madrid, March 18 in Lisbon, March 21 in Paris. Contact Claudia Diven at</td>
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<td>MBA Class Reunions for ’01, ’97, ’92, ’87, Stanford campus. Contact Lisa Brown at</td>
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**STANFORD**

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FEATURES

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COVER: Michael Llewellyn/Getty Images
A Role for a Printed Magazine?

IN THE DAYS AND WEEKS FOLLOWING THE TERRORIST ATTACKS in New York and Washington, D.C., many of you turned to the Internet and email to make fast, two-way connections with others in the GSB community. (See the Dean’s letter at right for details.) In such crises, this magazine cannot compete effectively with the latest communication technologies, or even, for that matter, with the old telegraph and telephone. So what role does the printed quarterly Stanford Business magazine play in this age of Web pages, e-books, and email newsletters?

You told us in a recent survey—mailed to 15,000 alums and emailed to 8,000 others, which in itself suggests there is no one-size-suits-all method of getting information to you—that fast-paced communications don’t always provide the nourishment you seek and that you look forward to picking up the latest issue and having something catch your eye, your mind, your heart.

The consultants who gathered the information from 4,500 surveys and focus groups in 14 cities concluded that “the magazine is a ‘must-read’ for most alumni.” And while some alums, especially younger ones, said they are “very interested” in online access to the magazine, far more expressed interest in receiving a paper copy.

“Reading habits reflect lifestyles,” the consultants noted. The magazine is “leisure reading to some, an important professional education resource for others. The printed version was lauded by most, but considered unnecessary by some younger alumni, who prefer electronic ‘digest’ communications.”

Given these responses, it is possible the paper magazine will disappear someday, but it won’t happen tomorrow. “If it doesn’t come in the mail, there’s no way I’ll go look for it,” one alum commented about ClassNotes, the most popular part of the magazine. Another alum who reads on paper said, “If I see something I like, I go to the Web site and email articles to clients. For me the Web is value-added, but not necessarily the way I read.”

Another pointed to the different strengths of these media. There are many “things I want to know that I come looking for,” he said, which is a strength of the Web. But there are also “things I didn’t know I wanted that the GSB can make me aware of.” Flipping through the pages of a magazine still offers this serendipity better than most Web sites.

Contributors to this printed and Web issue include freelance writer Karl Schoenberger, who wrote the feature story on educational reform (page 16)—a subject he found to be one of the most convoluted he has had to unravel in his 20 years as a journalist. “I look to my sources for clarity, but practically everyone I talked to for this story warned me how complicated the issues were,” he says. Given the “mind-numbing” amount of research and ideological hyperbole surrounding the reform debate, Schoenberger offers a “snapshot” of some of our alums in the thick of the entrepreneurial approach to reform.

Photographer Timothy Archibald (left) took the pictures for the education story, as well as for the article on a Richmond, Calif., firm working its way out of crisis (page 8). A Richmond resident himself, Archibald “was amazed with the things that are uncelebrated—going on in my own back yard.”

Kathleen O’Toole
Building Community Is Not a Given

As we went to press with this magazine, the terrorist attacks on the World Trade Center and the Pentagon had taken place only a few weeks prior. Already, the Stanford Business School community—like many other families and communities—has been profoundly affected by these acts. With two of the four hijacked planes bound for California and estimates of more than 6,000 casualties, it seemed inevitable that our community would be touched directly. With great sadness, I must tell you that word reached me that Bryan Jack, MBA ’78, was lost in the plane that struck the Pentagon. Our deepest sympathies are with his family and friends.

It has given me comfort, however, to see students, alumni, faculty, and staff coming together—talking, praying, and sharing. On September 11, the new students, here for their second day of orientation, gathered with staff and faculty for a vigil in the Birds courtyard. In addition, we were relieved to see, in the early aftermath of this tragedy, that so many of you reported your safety to fellow alumni through a temporary database set up by Rian Schmidt, MBA ’96. We now have an Alumni Thoughts page on our Web site (www.gsb.stanford.edu/alumni) through which you may share comments about the difficult new environment in which we must live.

Community is not something we take for granted. We work at making collaboration the hallmark of a Stanford Business School education. Indeed, community building was the central theme of our new student orientation program this year.

In addition to ensuring that students build strong ties with faculty and staff while they are here, we feel it is essential to involve alumni in the life of the School, now more than ever before. We need you to help nourish the culture and resources of the School. And we have developed new avenues to help you do so. For the second year in a row, alumni are helping us in the selection process of the next class by conducting applicant interviews. We urge more of you to do so and in the process help shape the quality of experience you have personally known at the GSB for those who are coming after you.

Alumni also participated in an all-new student orientation panel this year. The panel’s purpose was to give students a sense that the School is bigger than any single one of us and that the GSB experience is both a privilege and a gift, since alumni donations underwrite a significant portion of our annual operating costs. At an informal lunch and a subsequent dinner, alumni who attended the event shared advice on how to make the most of their two years. We had also planned a separate Alumni Perspectives panel to help students see themselves as part of a larger network, but we postponed it until later in the year due to the emotional impact of the September 11 events just two days before.

We are trying to make it easier for you to engage with the School. We have expanded alumni services to include a monthly news digest of events, research summaries, and information about the School that has appeared in the media. We’ve had good feedback so far. Take advantage of this service and others by visiting your alumni Web site (www.gsb.stanford.edu/alumni). If you would like to receive email communications from the School, log on to the Alumni Directory (http://alumni-gsb.stanford.edu) and update your email information.

We are also expanding a section on your Web page called Lifelong Learning, which will increasingly offer book suggestions, reading lists, and academic resources that you may find relevant. We are currently featuring synopses of some of our new second-year seminars—preterm one-week classes with a maximum of 12 participants designed to give students and faculty an intimate, in-depth opportunity to explore a research topic.

Our alumni services Web page also features an improved career network service, and we are looking for more alumni to join our mentor program for students.

September’s terrible tragedy forced us to cancel our September alumni program in Hong Kong, but rest assured it is being rescheduled. And next March we plan to be in Europe with Professor Haim Mendelson, who is a thought leader in the field of information management. In what will likely be a period of uncertainty ahead for all of us, I hope that you will rely in part on your GSB community for support.

In addition to ensuring that students build strong ties with faculty and staff, we feel it is essential to involve alumni in the life of the School, now more than ever before.
GUARDIAN OF OVERSEASERS

A CEO who serves on outside boards learns not only from the substance of the discussions but also from seeing how that substance is presented, James Dickason, MBA ’51, remarked in 1982 when he received the School’s highest alumni honor, the Ernest C. Arbuckle Award.

Dickason and the GSB also learned much from Dickason, a prominent Los Angeles business leader, philanthropist, and former chairman of the Newhall Land and Farming Co., who died Aug. 26 in Reno, Nev.

Dickason served six terms on the Business School Advisory Council, one on the Hoover Institution Board of Overseers, and 10 years on the Stanford Board of Trustees. He was national chair for major gifts in Stanford’s Centennial Campaign and president of the University’s honor society for alumni volunteers. Dickason received the Stanford Associates’ Gold Spike Award in 1990 and the Centennial Medallion in 1992.

Prom Night Redux

A half century after he missed his high school graduation, Edwin Bly, MBA ’49, of Sacramento, donned his Navy whites to go to his second senior prom. This time it was a “senior-senior” prom and graduation night staged for about 40 WWII veterans who missed their first graduation or prom night at Rocklin High School in California because of military service.

Bly, who was a skinny 17-year-old when he joined the Navy, told the Sacramento Bee that he managed to get a brief leave from Navy training for his first senior prom and wore his Navy blues, making it back to the base just in time for morning exercises at 5:30.

This spring’s celebration was
planned by 30 Rocklin High seniors in the National Honor Society who wanted to express thanks to the veterans.

**Bottom Line2**

**STUDENTS IN THE PUBLIC Management Program (PMP)** are interested in better understanding how and why some innovative businesses are promoting double bottom lines—profits and public service—at the same time. Double bottom lines, the subject of this year’s

a few hours a week, and Cisco Systems recently offered laid-off employees the option of receiving a third of their salary if they work for a nonprofit organization for a year.

The topic also includes innovative efforts to bring the venture capital model of for-profit investing to the nonprofit sector and initiatives by nonprofits to create for-profit functions. For more information, go to the PMP Web page at www.gsb.stanford.edu/pmp.

And the Alumni Survey Says...

**ALTHOUGH GSB ALUMNI/AE** have a very strong affinity for their classmates, younger alums also like to network with classes besides their own, according to results of a new survey conducted for the Stanford Business School Alumni Association (SBSSA). Grads view the Internet as an important source of information, although younger alums are more inclined to access and use the alumni Web site and online services.

About 4,500 of the School’s 23,000 alumni/a responded to the mail and email survey. Nearly 100 also attended focus group sessions in 14 locations around the country and in London. Those who earned their MBA in the last 15 years “are really interested in having the Alumni Association provide networking opportunities across the board, either through chapter events, conferences, or career services,” says Lynne Reynolds, SBSSA executive director. Older alums are interested in class reunions but tend to think linking peers is a less important role for the association than “enhancing the reputation of the GSB.” The association will use survey results to design events, services, and communications targeted to people with different interests and awareness of existing SBSSA programs, Reynolds said. For more survey results, see www.gsb.stanford.edu/alumni/surveyresults.html.

**Hiring Talent**

**MBAs LOOKING FOR a better job will find tips in a new book that was written primarily for recruiters seeking talent in competitive markets, says Steve Anderson, MBA ’99, a partner at Kleiner Perkins Caufield & Byers. The book, Hiring the Best and the Brightest, is by Sherrie Gong Taguchi, MBA ’89, who directed the Business School’s Career Management Center until October when she moved to London with her husband, Mark Taguchi, MBA ’86.**

Taguchi’s tips are based both on her experience assisting company recruiters and GSB students to make good matches and her past work in global recruiting and human resources. The book is published by Amacom, the publishing arm of the American Management Association.

**Not Your Typical Summer in Georgia**

**JIM TWISS SPENT part of his summer arguing with oilmen while waiting for Georgian President Eduard Shevardnadze to arrive in Baku, Azerbaijan. Classmate Liana Downey was embroiled in negotiations, conducted partly in Russian, arguing the validity of net present value. The two members of the Class of 2002 spent 10 weeks in Tbilisi, Georgia, pondering problems of the former Soviet republic.**

Downey worked for the Georgian International Oil Corporation, the state-owned energy company, on the right-of-way negotiations for the natural-gas pipeline that is to be built across Georgia from Azerbaijan to Turkey. Twiss split his time between the negotiations, organizing a restructuring of Georgia’s debt to Austria, and selling two state-owned telecommunications companies. Downey’s task was to negotiate with the consortium of oil companies on payment to

**SRO Turnout for Hollywood Class**

**S** iourney Weaver, star of *Aliens and Gorillas in the Mist,* was one of a cast of entertainment industry notables who spoke to students in Rod Kramer’s course *Working in the Film and Television Industry.* Also appearing at the three-hour-plus weekly workshops, which Kramer cotaught with Emmy- and Oscar-winning documentary filmmaker Bill Guttentag, were writers, directors, film and television producers, agents, a film critic, the head of a major entertainment law firm, and a former CEO of Universal Studios.

More than 100 students auditioned for 60 spots in the course by writing proposals for a project related to the entertainment industry.

Weaver, who earned a bachelor’s degree from Stanford in 1972, turned out to be refreshingly down to earth. Her advice to budding producers was: “Be picky in your projects…. Don’t do it if it doesn’t feel right to you…. Embrace failure and learn from it…. Never do business with people you wouldn’t have dinner with.” But most important, she said with a sly grin, “When you’re very successful, hire me!”

**Alum Returns to Head MBA Admissions**

**DERRICK BOLTON, MBA ’98,** became the GSB’s director of MBA admissions in August. Alumni/a, students, administrators, and faculty participated in an intensive national search for a director to succeed 10-year veteran Marie Mookini, who announced her desire to change roles last winter. Mookini remains at the School as an associate director of development.

Bolton, an associate at Goldman Sachs since graduating from the GSB, also earned a master’s degree in education administration and policy analysis, with a higher education focus, while he was at Stanford. Before coming to the School, he was a business analyst at McKinsey & Co. He completed his bachelor’s degree in psychology at Southern Methodist University.
Georgia. She worked with Jenik Radon, a GSB lecturer in international business who led the negotiations for the Georgian government.

The importance of negotiating a 60-year contract was reinforced for Downey in a smoke-filled room with heated discussions being conducted in Russian, Azeri, and Georgian.

“Arguing the validity of the net present value concept was an unexpected and fascinating collision of business school and real world.”

Twiss recalls: “At one point in Baku, it was 6:00 in the morning. We had been negotiating for 16 hours—fighting about the definition of force majeure [act of God]—with the president of Georgia scheduled to arrive in five hours for a signing and 10 exhausted oilmen on the other side of the table.”

Both students received stipends from the Stanford Management Internship Fund and participated in GMIX, a program that gives students the opportunity to receive academic credit for research projects related to work in foreign countries.

### MBA Student Profile: Class of 2003

#### GENERAL
- Total Applications: 5,253
- Enrollment: 362
- Women: 37.6%
- Minority: 27.1%
- International: 23.5%
- Age Range: 22–35
- Median Age: 27.0
- Students with Advanced Degrees: 11%
- Average Years of Work Experience: 4.5
- Average GMAT Score: 718

#### SCHOOL/GEOGRAPHIC REPRESENTATION
- U.S. Institutions: 78
- Non-U.S. Institutions: 50
- Countries (including the U.S.): 31

#### UNDERGRADUATE MAJOR
- Engineering/Computer Science: 25.7%
- Economics: 22.4%
- Behavioral/Social Sciences: 16.0%
- Business/Accounting: 13.5%
- Humanities: 12.4%
- Applied/Natural Sciences: 7.2%
- Mathematics: 2.8%

#### TOP 5 INDUSTRIES
- High-Tech Products and Services: 24.0%
- Financial Services: 23.5%
- Consulting: 22.4%
- Nonprofit/Government/Education: 9.7%
- Diversified Manufacturing: 6.6%

Source: Registrar’s Office

**A Novel Look at a New Military**

Marines prefer military to humanitarian missions, according to Owen West, MBA ’98, in his first novel, *Sharkman Six*, set in Somalia during Operation Restore Hope.

West, a former Marine captain who came to the Business School rather than serve a required tour at stateside duty, now takes his risks as an energy futures trader for Goldman Sachs by day and as a writer by night. It isn’t enough. He also climbed the north face of Mt. Everest last spring, wisely turning around at 28,000 feet, and in 2000 completed his fifth Eco Challenge, arguably the world’s toughest expedition race, with three Playboy Playmates as teammates. “I’m a restless person, and it’s hard to find out who you are when you sit in front of a computer screen all day,” he says.

The risk-seeking Marines in West’s book, just released by Simon & Schuster, are sent to Somalia with orders that force them to stand by and merely watch mayhem unless their own lives are threatened. Their adventures provide insight into the problems of using the modern military to carry out humanitarian policy.

**Esperanto, Anyone?**

One way MBA students prepare for the global economy is to take foreign language courses while studying business. Over the last nine years, MBAs have averaged 315 foreign language enrollments a year. Spanish is the favorite, constituting a third or more of the enrollments most years. French has been the second favorite in most years, but Chinese took second place in 1992–93, 1993–94, and 1996–97. The Russian/Slavic languages, popular after the fall of the Berlin Wall, have declined in more recent years, but Japanese enjoyed a healthy rebound with 13 enrollments this past year after nose-diving to 1 the year before. Other languages taken include Hindi, Hebrew, Persian, German, Korean, Italian, and Portuguese, according to Betsy Scroggs of the MBA Program office.
A chance to try for a strike or a spare and get to know some classmates at the same time encouraged more than 300 of the Class of ’03 and friends to turn out at Mel’s Redwood Bowl for a night of “extreme” bowling. Some students showed up for this classic orientation event in “extreme” style—to match the loud music and high energy—before the more serious business of classes began on September 26. Daring to risk a gutter ball were (front) Kathy Lipscomb (2nd-year who coordinated the event), Ana Pedros, and Elaine Wong; (back) Carter Keller (friend of new student Hilary Hoover), Jeff Gerttula, Stefan Moores, Omar White, and Dan Krause.
Rebunding from a Crisis
A strong corporate-community relationship helped save Mike Biddle’s plastics recycling firm after a major accident threatened to destroy the company.

In July, as workers hauled a bulky desk through a second-story window and laid new carpeting in the reception area, Biddle sat in a nearly bare conference room talking about his company.

MBA Polymers separates different colors and types of mixed plastics so they can be remade into commercial-grade plastics. It sounds easy. “Basically, we grind them all up,” Biddle says, waving across the table at a half-dozen pint-sized, zippered plastic bags filled with trash in various degrees of pulverization. “These were computers, printers, and so forth. Most of the metal has been taken out by someone else. What you see here is being buried and burned around the world because nobody knows how to get any value out of this garbage. What we do basically is above-ground mining. We mine our plastics without having to pump oil out of the ground.”

His hand moves down the row of baggies. “We take this stuff and refine it one step further,” he says, “and then separate it into different types and colors of plastic. Then we make it into little pellets, and someone can take these pellets and make parts 100 percent recycled plastics. We know a couple of companies that can separate simple mixes, but we don’t know anyone else in the world who can take this complicated a mixture.”

Pointing to four bars of high-grade recycled plastic, each a different color, he says, “It took us eight years to develop the technology to do this and over $16 million in investments.”

There’s a story Mike Biddle loves to tell. As a young engineer at Dow Chemical, he suggested to his boss that since Dow was producing so much plastic, it was time the company looked into ways to recycle it. His boss answered that he hadn’t hired a PhD in polymer science to worry about garbage, and that was the end of that. Or so they thought. Six months later Berkeley, Calif., outlawed polystyrene foam containers, and other communities soon followed suit. Biddle’s boss decided maybe garbage was becoming a doctoral-level problem after all.

Biddle, Sloan ’91, went on to create and head Dow’s plastics recycle research group before striking out on his own in late 1992, when Dow decided to move its Walnut Creek, Calif., office to Michigan. And while Biddle hasn’t exactly turned garbage into gold, he was well on his way until a major accident threatened to destroy his company.

Eight months after an explosion and fire shut down the line at Biddle’s Richmond, Calif., plastics recycling plant, MBA Polymers, it started up again this summer.

CEO Mike Biddle at his plant in Richmond, Calif.
That was one of the hardest things I’ve ever had to do,” Biddle says. “At least, thanks to Richard, we were able to keep them in place for months.” McCombs negotiated with MBA Polymer’s insurance company to hire the 50 for cleanup, and that kept them on somebody’s payroll for a while.

Dealing with the neighborhood was another issue entirely. The residents of Richmond do not take kindly to industrial accidents. In 1999 alone there had been four major accidents in the city or nearby; one killed four people. Another company might have hidden behind a wall of lawyers or revved up its public relations spin machine. Instead, MBA Polymers quickly and publicly offered to pay medical bills for anyone worried about the effects of smoke inhalation. Perhaps more important, the company was able to fall back on the reservoir of good will it had built up over the past few years.

“From the git-go, MBA Polymers did an outstanding job of reaching out to the community and becoming part of it,” says Sal Vaca, assistant director of Richmond’s employment and training department.

They’ve invited the community into the plant for open houses, and they’ve taken the plant to the community. MBA Polymers serves on the local Chamber of Commerce and also sends representatives to monthly neighborhood council meetings. “Basically, I think we do what good corporations do,” says McCombs. “Although I’m not sure most corporations do this.”

“They’ve also hired well over 35 people from the community,” Vaca says. Confirming this, Biddle adds: “We hire locally, sometimes from local rehabilitation programs. We try to give people a second chance.” He grins at the commercial to come. “Just like we give plastics a second chance.”

Biddle pauses. “You could never say the fire was a blessing, but there were some small silver linings. We were forced to step back and take that time to evaluate. We had brought Bechtel in before the fire to do test work and observe the process lines. After the fire they were able to spend more time on the line than if we had been in production. And the timeout helped accelerate our business overseas. Since we raised money the first time, the opportunity has only gotten bigger—bigger even than we projected.”

There has been a market for commercial-grade recycled plastics for years, but the supply of garbage plastic to recycle has been hard to come by. Manufacturers have found it cheaper and more convenient to simply dump it. But times are changing. On April 1, new legislation took effect in Japan. Manufacturers of washing machines, refrigerators, televisions, and air conditioners became responsible for recycling the machines they manufactured. In response, the companies have banded together and built more than 30 recycling plants.

“These facilities are a dream come true for us,” Biddle says. “What they do is the front end of our business. They collect it. They aggregate it. And then they shred it to recover the metals. What’s left is this,” he says, pointing to the first baggie in the line. “They leave off where we start. Right now, they have to burn or bury the plastic. That’s very costly, and it’s a not very good thing to do to the environment. So these big-name companies are very interested in getting us over to Japan as soon as possible.”

The Richmond plant should be up to its previous speed before the end of the year, and Biddle sees it continuing to grow. The United States is flirting with recycling legislation on a state-by-state basis, and a number of states already have banned appliances from landfills. Several computer companies, including HP and IBM, have instituted voluntary take-backs. The European Union has mandated some recycling, and Biddle is laying the groundwork for expansion there as well as scouting a plant site in Japan. In September Biddle announced a second round of funding, led by international contract manufacturer Flextronics. The future looks good.

Biddle knows the unexpected may happen. But he also knows that sometimes predictions come true. And he sure does like to tell that story about the young engineer.

Former Stanford Business editor Janet Zisch freelances from Half Moon Bay, Calif.
People are talking about globalization, but they don’t understand how it affects them. That worries them,” Beech says as she heads for a 7 o’clock appointment. “There is little public discussion of the relationship between globalization, trade, and work.”

Beech hopes eventually to raise the debate over globalization to a higher—and wider—level on TV or radio. For now, she’s preparing for the next step in her career with all the thoroughness of preparing for her weekly show. “Community Lives” isn’t the product; it’s Step One in the process.

—Janet Zich

Tom Tusher, MBA ’65

Tom Tusher felt a lump in his chest, but it didn’t seem to be growing, it didn’t hurt, and he didn’t feel tired. When his specialist told him seven years ago that “men don’t get breast cancer,” Tusher opted not to worry. He was more concerned about what to do after re-tiring as president and COO of Levi Strauss. “The corporate world took 200 percent of my time,” Tusher, MBA ’65, says. “I didn’t have time to fish and read books. For me, retirement wasn’t going to be something where I was going to go and vegetate. I was going to do things I hadn’t done before.”

Twenty years before, Tusher had bought 55 acres outside of Queenstown, New Zealand, that were so difficult to reach no local wanted the parcel. As retirement neared, his plan for a modest fishing cabin grew into a house. The house would require a caretaker. If there was to be a caretaker, then why not have a bed-and-breakfast inn? But with a B&B, so many friends might come to visit that a lodge seemed like an even better idea. “I’ve always enjoyed design and architecture,” Tusher says.

The end result is Blanket Bay, a 60,000-acre luxury destination with a nine-room lodge plus two chalets (and the Tushers’ two-building home) that has garnered rave reviews from the travel industry.

Last September, six years after Tusher decided to dismiss the lump in his chest, his new doctor said, “I don’t like the looks of that.” A needle biopsy report came back malignant. Within a week the lump and five lymph nodes were out. The subsequent chemotherapy was “very ugly.”

Tusher says his bout with cancer hasn’t radically altered his view of life. It’s the perspective from Blanket Bay that has—

“...the crystal-clear water, the snow-covered mountains, the chance for his family and guests to go hiking, horseback riding, or heli-skiing from their front doors.

“We saw the chance to do something that would please other people as well as create a special place in a special part of the world. Our main purpose was not to create a profit but to create a place that we would enjoy and others would enjoy. A lot of people come back after a day out with tears in their eyes,” Tusher says. “It’s a magical spot.”

—Robert L. Strauss, MA/MB a ’84

Hilary Beech, MBA ’91

It’s 5:19 p.m. on KZSC-FM and Hilary Beech is multitasking. Raising the volume on a CD of North African jazz, Beech asks the subject of her interview how she’s holding up, sips some water, runs through her notes for the next segment of KZSC’s “Community Lives,” reads a few public announcements in a cool “Mid-Atlantic” accent, and returns seamlessly to her guest. Three minutes have passed.

Since last January, Beech has been the volunteer producer, director, researcher, writer, disk jockey, technician, and host of her own weekly, hour-long interview and call-in show, which profiles people from all walks of life in California’s coastal Santa Cruz County.

By the end of the hour, Beech, through skillful questioning, will have enhanced her listeners’ appreciation for the problems facing gay, lesbian, and bisexual teenagers (today’s guest runs a nonprofit speaker panel that visits local schools); answered a caller as her guest continued on air; and crawled around the maze of wires under her desk in a futile attempt to locate the cause of a static-laden news feed from Berkeley’s KPFA.

And this isn’t even her day job.

Days, Beech runs her own high-tech consulting firm in nearby Aptos. Born in England and raised there and in California, she is an electrical engineer with bachelor’s and master’s degrees as well as a Stanford MBA. Last year she finished a master’s in international economics. And this, oddly, is where the radio show comes in.

“People are talking about globalization, but they don’t understand how it affects them. That worries them,” Beech says as she heads for a 7 o’clock appointment. “There is little public discussion of the relationship between globalization, trade, and work.”

Beech hopes eventually to raise the debate over globalization to a higher—and wider—level on TV or radio. For now, she’s preparing for the next step in her career with all the thoroughness of preparing for her weekly show. “Community Lives” isn’t the product; it’s Step One in the process.

—Janet Zich
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For the Greater Glory

Three Jesuit priests, centered on spirituality but focused on solving worldly problems, use their MBA degrees to push the Church’s envelope.

FEW EYEBROWS TUGGED HEAVENWARD when Tom Smolich was asked to head one of the Jesuit religious order’s 85 provinces. “One of the concerns heard when I was named Provincial was, was I going to turn this into a business?” he says. “No, I’m not turning it into a business.” There is a hint of exasperation in his answer, but it is not difficult to see why such questions pop up. After all, a Stanford MBA is hardly the typical postgraduate qualification for someone who has taken a vow of poverty. But, as improbable as that career track may seem, Smolich was not the first Jesuit priest to come study at the Business School. The Class of ’83 had Albert DiUlio, who has just taken up a leading position in one of the country’s largest school systems. Smolich’s own Class of ’96 included Daniel Lahart, recently appointed president of a Houston preparatory school.

Stanford’s three Jesuit MBAs are part of a centuries-old experiment in engaging the world for the greater glory of God—*ad majorem Dei gloriam*, as their motto puts it. “The Jesuits try to take advantage of people’s individual talents,” Lahart says. “There are Jesuits who are physicians, lawyers, artists, architects.” With about 22,000 men around the globe, they form the largest missionary order of the Roman Catholic Church.

The 461-year-old organization, formally called the Society of Jesus, is noted as much for its energy as its longevity. In the United States, Jesuits have been active in the civil rights movement and are especially well known for their role in education. Beginning with Georgetown University, founded in 1789, they have set up a network of 46 high schools and 28 colleges and universities around the country. Centered on spirituality but geared toward direct service, Jesuits form a pool of skilled and flexible human capital at the disposal of the Pope.

Getting the most out of that pool is one of Smolich’s key responsibilities. He was appointed California Provincial Superior in 1999, putting him in charge of more than 400 men from Nevada, Utah, Arizona, and Hawaii, as well as the Golden State. “In some ways it’s a human resources job, but 24-7 rather than five days a week,” he says.

In contrast to the strongly hierarchical Catholic Church it serves, the Jesuit order has a flat structure. The men report to Provincials like Smolich, who in turn answer to the number one Jesuit, the General Superior in Rome, who is immediately accountable to the Pope. “I have a personal conversation called the ‘account of conscience’ with 460 guys every year. We talk about how the Spirit is moving in their lives, what their current mission is, and what their next mission should be,” Smolich says. His Business School training in risk management has turned out to be especially useful when making personnel decisions. “As an order, we have a tradition of trying new things. But if we’re going to take risks, the returns must be commensurate.”

For DiUlio, that tradition of innovation meant being dispatched in 1999 to Ethiopia to set up the poverty-stricken country’s first Catholic university. He had by then served as president of Xavier University in Cincinnati and of Marquette University in Milwaukee. But his two years in Addis Ababa were “something totally different,” he says. DiUlio’s reminiscences include being
confronted by hundreds of sheep and cattle outside his front door on market days; learning to direct taxis in a city where the streets have no name; and inching through the government’s slow-moving bureaucracy. With preliminary funding for the university put up by the Italian Bishops’ Conference, DiUlio entered into talks with the Ethiopian government. It took more than three months to obtain a meeting with officials to discuss the first draft of the university charter. “Most of my time was spent waiting,” he recalls. “It’s easy to underestimate the amount of time it takes to get things done in a different culture. And it is a very different culture. But it really was an exciting project, with a lot of potential. It still is.”

DiUlio completed a feasibility study and identified a suitable plot of land, but he estimates that it will be another three to five years before the institution opens. It will be tough to find teachers, he says. Much of the indigenous professional class has emigrated, and it is hard to draw expatriates into the country. Having done some of the groundwork for the university, DiUlio moved on this year to a new assignment half a world away. When the Archbishop of Los Angeles created the position of president of schools, DiUlio was picked for the job. The L.A. Archdiocese runs one of the largest school systems in the country, with 300 high schools and elementary schools serving about 100,000 students. As their head, DiUlio’s responsibilities include strategic planning, financial management, and finding solutions for reaching underserved and minority communities in the metropolis.

“Los Angeles has a very large population of newly arrived peoples, and helping them and their children become fully integrated into American culture remains a major challenge,” he says.

The year 2001 was a milestone—both professionally and spiritually—for Lahart as well. In August, he took up the presidency of Strake Jesuit College Preparatory School in Houston. He had spent the previous five years as vice president for finance and administration at Gonzaga College High School in Washington, D.C. There, he masterminded a $21.5 million bond issue to finance a major campus renovation by relying heavily on his MBA experience. “Without it, I wouldn’t have known where to begin, and I probably would have been too scared to do it,” Lahart says. “There were times I could pick up the phone and ask a classmate for advice.”

Before moving to Houston, Lahart embarked on his Tertiarianship—the final stage of his Jesuit training. This brought him back to the San Francisco Bay Area, but this time it was to the Sacred Heart Jesuit Center, high on a hill in Los Gatos. Downtown San Jose is clearly visible in the distance, but it is the serene religious statues and free-roaming deer in the garden that set the tone here, not the Silicon Valley bustle below. Lahart’s Tertiarianship included a 30-day silent retreat, in which solitary contemplation is interrupted only by brief daily meetings with an adviser. “It’s our belief that an immediate experience of God is possible,” he explains. “The retreat is a kind of withdrawal from all the distractions of the world to be able to hear God’s call.”

The number of men willing to respond to that call—with its long years of training and its perpetual vows of poverty, chastity, and obedience—has been falling steadily since the 1960s. The U.S. provinces have benefited from some immigration of Jesuits from Asia and Africa, where the order is still growing. Nevertheless, numbers have fallen from over 8,000 in the mid-sixties to about 4,000 today. “Manpower, manpower, manpower,” DiUlio replies, when asked to identify the main challenges facing the order. He notes that when he studied at Marquette University in the 1960s, it was “extremely rare” for a student not to be taught by several Jesuits in the course of a year. Nowadays, students may not have any contact at all with the Pope’s Men in Jesuit schools. “It’s harder and harder to maintain their identifiable religious character,” DiUlio acknowledges. Doing so requires greater reliance on lay people, which the three priests agree has been working well.

But some within the church allege that the Jesuits have bitten off more than they can chew—building a large school system on the assumption that the order would continue to grow. Smolich counters: “Our founder, Ignatius, was not a circle-the-wagons kind of guy. We’re going to try things. Yes, we set up this frankly phenomenal private Catholic school network. Is it perfect? No, it’s not perfect. So what? Is there a lot of good going on? Yes.” He notes that Jesuits in the United States continue to build and innovate. For example, they have set up a string of “Nativity” schools across the country in which students from poor families are given intensive academic and spiritual training in a year-round program that includes extracurricular activities and summer classes. “Historically, we’ve gone where needs are greatest. By nature, we’re people who push the envelope, and the church needs people who push the envelope,” says Smolich.

Some critics are unimpressed, and they argue that in its eagerness to address the practical problems of the world, the Society of Jesus has distracted the church from its proper, spiritual purpose. In the conspiracy-theory version of this argument, Jesuits have even been portrayed as Trojan horses who have smuggled Marxist liberation theology into the heart of the Roman Catholic Church, with some far-reaching geopolitical consequences.

The MBA priests sweep aside such criticism. They perceive no such wall between spiritual and temporal worlds. Says Smolich: “Gerard Manley Hopkins, the Jesuit poet, said, ‘The world is charged with the grandeur of God.’ I really believe that. There are opportunities out there and things we can do.” Their spiritual gift, or charism, is to get their hands dirty, adds Lahart: “There are some religious orders whose charism is to sit on a mountaintop and pray for the world. Our charism is to get involved, to try to make a contribution to a situation, and in the midst of that, recognize our God is present in what’s going on.” Jesuits are “contemplatives in action,” he says.

With everything that’s on their plate, the three say their MBAs have come in handy. Their jobs involve reading balance sheets, communicating with lay board members who use the language of business, and managing men and assets. But while they see parallels between their order and any other large corporation, they are also quick to point out the limits to the analogy. After all, their bottom line is fundamentally different from that of the typical Fortune 500 outfit. “The key difference is that governance is based on an account of conscience,” says Smolich. The California Provincial adds: “Am I the CEO? Yes, I’m the CEO. Would I ever use that title? Not on your life.”

Cherian George is a Stanford PhD candidate in communications and a former reporter for the Singapore Straits Times.
A Proposed Remedy for the Uninsured

A new federal agency would oversee a system in which all Americans could pick among competing health care plans—as long as they pay the cost differential.

The group hopes that the government will give tax credits to allow lower- and middle-income Americans to afford the premiums. Because individuals would pay for the coverage—either from tax credits, employer-given credits, or their own funds—consumers also would have an incentive to choose lower-priced plans. That pressure to lower prices could cut medical costs across the board, the three researchers believe.

Key points of the Singer-Garber-Enthoven plan are:

- The creation of public, private, and employer-based “insurance exchanges” that would offer a variety of health plans in every geographic region, as well as a government-sponsored “U.S. Insurance Exchange” to work as a safety net. Individuals who enroll through an exchange would be guaranteed an insurance policy. People who did not enroll themselves would be enrolled in a default plan.
- Tax credits for low- and middle-income Americans to use for health care purchased through such exchanges.
- A new “Insurance Exchange Commission,” a federal agency resembling the Securities and Exchange Commission, that would distribute tax credits and payments, accredit exchanges, and serve as an information clearinghouse for the public.

The proposals resemble the plans Bill Bradley put forward during the Democratic presidential campaign of 2000—and, interestingly, are also similar to a mid-1990s Republican plan that never got off the ground, Enthoven says. Such “managed competition” has been put into place before on a smaller scale—including at Stanford, which gives its employees credits and a choice of insurance plans, with employees having to contribute more of their own funds for more expensive plans. “It’s a wide range of choice, but it’s a responsible choice—if you pick something that costs more, you bear the cost yourself,” he says.

Enthoven, often called the father of managed care, since 1978 has promoted similar solutions to the country’s health care problems. Garber helped craft Bradley’s health care plans, and Singer has held a variety of health care research and government advisory positions. Congress, however, has been more concerned with other health-related matters lately, like the Patients’ Bill of Rights. “America is not in the mood for looking hard at this right now,” Enthoven says. But when the political climate changes as costs rise, their plan might be just the thing the doctor ordered.

Meredith Alexander is a staff writer for the Stanford University News Service.
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Robert L. Joss  
Philip H. Knight Professor and Dean  
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Hope Community Academy, an innovative elementary school in St. Paul, Minnesota, tells the story of how a few good ideas from the world of business can help transform public education. The K–3 charter school made its debut last fall after elders in the city’s ethnic Hmong community complained that their children were performing poorly in local public schools. The special needs of these students were not being served by conventional bilingual education and summer school programs.

So parents organized and started their own school. They located a site in an abandoned brewery in the eastside Swede Hollow neighborhood, where many Hmong refugees had resettled after fleeing the highlands of Laos in the aftermath of the Vietnam War. To run Hope Community Academy, they turned to LearnNow, a for-profit “educational management organization” (EMO) based in New York, in order to balance the unique cultural sensitivities of their community with a no-nonsense administration that stresses such practices as rigorous student testing and budgetary discipline.

The progress made during Hope’s maiden year was measurable and dramatic, says Jim Shelton, president of LearnNow, which became a division of Edison Schools in July. Shelton, who earned dual master’s degrees at Stanford’s Graduate School of Business and the School of Education in 1993, says as many as 88 percent of Hope’s kindergartners and 92 percent of its first-grade students scored in the fall at “below basic” level on the Sunshine Assessment, a standardized test for early development in literacy. By springtime, their scores had flipped: 90 percent of kindergartners and 84 percent of first-graders scored at “proficient” or higher. Second- and third-graders demonstrated similarly significant improvement in the SAT-9 test. “These kinds of gains are unheard of, especially in a first-year school,” says Shelton, a former McKinsey & Co. consultant who grew up in a disadvantaged African American neighborhood in southeast Washington.

From left: Gloria Lee, MBA & MA in education ’98, Kimberly Smith, MBA ’98, and Lauren Dutton, MBA ’97

Photographs by Timothy Archibald
GSB alums are using their management training to attack problems in the nation’s public schools. **IT’S NOT AN EASY ASSIGNMENT.**

By KARL SCHOENBERGER
D.C. “It’s clear there are no excuses for not creating an environment where all children can achieve.”

Shelton is one of the growing number of GSB alumni on the front lines of education reform—entrepreneurs who are using their management skills to attack the seemingly insurmountable problems of the nation’s ailing public schools. Things don’t always go as smoothly as they have for LearnNow in St. Paul. Along with other pedagogues from the business community, Stanford’s MBAs encounter an entrenched education bureaucracy and deep suspicion about the remedies they advocate. Fundamental business concepts—such as strict fiscal accountability, efficiencies of scale, merit-based compensation, and assessment of quantifiable results—can seem radical and threatening in the tradition-bound education environment, where the culture of change is slow and cautious. The vehicle for this change in many cases is the charter school—an independent school within a public school district that is funded by the same taxpayer money as others but managed by an outside organization that hires its own staff and operates with an alternative philosophy. Stanford MBAs are involved in a wide range of organizations that have education reform as their goal, from nonprofit and for-profit emos to foundations that provide funding to school experiments to groups that train teachers, principals, and school volunteers. The business-inspired solutions they promote, however, can sometimes meet with resistance.

This conflict in values came into sharp focus recently in a contentious debate over the renewal of an elementary school charter in San Francisco held by Edison Schools, LearnNow’s parent and the nation’s largest for-profit emo. Despite praise from many parents and claims by Edison staff that significant progress had been made in learning achievement during the school’s three years of operation under charter, a majority on the San Francisco Board of Education was deeply troubled by Edison’s for-profit and publicly traded corporate status. Critics claimed the school’s test results were skewed because poorly performing students had been eliminated from the test pool. The board revoked Edison’s charter, but in a last-minute compromise allowed the school to stay open this fall under state supervision.

“Public schools and public institutions operate in very different ways than people trained and experienced in the private sector tend to realize,” says Linda Darling-Hammond, the Charles E. Ducommun Professor of Education at Stanford. Darling-Hammond supports the efforts of entrepreneurs to solve problems in education, but notes that imposing business theories on the public school system is nothing new: Initiatives to fix schools with testing and merit pay have come and gone since the early part of the last century. Pay-for-performance in today’s school environment, for example, remains ineffective because “the people who are supposed to be handing out merit pay raises—the principals and the administrators—don’t have the time or the qualifications to determine which teachers deserve it.” The problems are very deep and very complex, she says. “You need to change something within the system to get out from under it and allow innovations to work.”

Because the byzantine debate on school reform has tended to go in circles rather than progress in straight lines, it’s an increasingly important task to bridge the divide between education traditionalists and the agents of entrepreneurial change. This is especially true in light of President Bush’s controversial education reform initiative, which contains many elements advocated by business interests—including national testing standards and practices that some educators fear will have the devastating effect of pushing students out of the system and reducing high school graduation rates.

One person taking on the leadership challenge of moderating the debate is Kimberly Smith, MBA ’98. Smith, a former Teach for America corps member and business training consultant who is the daughter of an education professor and a school teacher, likes to talk about “hybrid” solutions. “People are speaking two different languages when they talk about education reform,” says Smith, chief executive of San Francisco–based New Schools Venture Fund. “Efficiency is not necessarily equal to effectiveness. The trick is to get to a hybrid space where you have business leaders driving to efficiency and educators seeking quality and effectiveness.”

New Schools, where Lauren Dutton, MBA ’97, is also a partner, is a donor-supported nonprofit organization that describes itself as a “venture philanthropy” fund investing in “education entrepreneurs.” The organization helped Shelton and his cofounder, CEO Eugene Wade, by seeding their fledgling LearnNow startup with a $1 million equity investment. The fund will reinvest capital gains generated by the Edison merger into other school reform initiatives, for-profit and nonprofit alike. “The public school system, the business sector, and the nonprofit sector all have parts of the solution. What’s needed is a commitment to bring all these parts together,” says Smith.

The basic vision at New Schools—which was founded by Brook Byers, MBA ’70, of Kleiner, Perkins, Caufield & Byers and other prominent Silicon Valley venture capitalists—is that by leading by example, entrepreneurs can have a catalytic effect on instilling business-style accountability in public schools. One basic problem in the education establishment is “misalignment,” says Smith, where resources go into the system without being linked to measurable outcomes in educational achievement. Compared to the $360 billion that the nation spends on public education every year, New Schools’ $20 million investment portfolio is miniscule, but Smith says it is “strategic,” aimed at influencing public policy deliberations and decision making on a larger scale.

Gloria Lee, MBA and MA in education ’98, takes a somewhat different approach. She also cut her teeth as a business consultant at McKinsey and, after Stanford, helped establish the Bay Area office for a UCLA School of Management program that trained public school teachers and principals in leadership and change management. Lee is now chief operating officer for Aspire Public Schools, a nonprofit charter school organization founded in a partnership between prominent Bay Area educator Don Shavley, former superintendent of schools in San Carlos, Calif., and high-tech entrepreneur Reed Hastings.

Lee is among the ranks of reformers who envision the ideal of an “education marketplace” that would offer parents greater choice and revolutionize public education once there is a critical mass of alternatives, primarily in the form of charter schools. “The idea of creating more opportunity for parents to choose is a good one, and I think we’re moving in that direction,” Lee says. But she adds, in a note of realism: “We may never really get there.”

Aspire is doubling the number of charter schools it operates from three to six this fall, including a new elementary school in East Palo Alto, Calif., the underprivileged oasis surrounded by high-tech wealth, where public education has failed famously and where education reformers love to set up laboratories for their ideas. There are stubborn obstacles in the way of increasing the charter school supply rapidly enough to meet seemingly insatiable demand for choice, Lee says. Scarcity in school facilities is a bane
“IF WE ACT AS IF WE KNOW HOW TO RUN SCHOOLS BETTER THAN THE PEOPLE IN THE SYSTEM, WE’LL BE REJECTED.” —JULIEN PHILLIPS, MBA ’70

for many new charter schools, which might have to spend up to 15 percent of their budget on rent, a burden not placed on conventional public schools. “It’s not a level playing field,” Lee says.

Another major problem, school reformers say, is the need for customization. A school that succeeds in one community cannot be cloned and transplanted. Currently, there are approximately 2,000 charter schools in the 36 states that allow them—a fraction of America’s 90,000 public schools. Each charter school operates with varying degrees of autonomy within local public school systems, but all are dependent on the same per-pupil funding for their operating costs as other district schools. The fact that community needs differ from district to district and per-pupil funding varies widely across state lines makes for a maddeningly complex patchwork of market conditions. Efficiency that might be derived by creating a successful charter school model and applying it uniformly on a large scale is illusory in the so-called education marketplace.

The same seems true for the for-profits. Edison Schools—founded in 1992 by media entrepreneur Christopher Whittle (creator of the Channel One commercial television news program for student audiences) and chaired by former Yale University president Benno C. Schmidt—now manages 113 public schools nationwide under charters or on a contract basis. Edison may be a for-profit entity whose stock is weathering the storm reasonably well on the Nasdaq, but it is far from profitable. The company recorded net losses of $29.3 million on growing revenues of $266.7 million during the nine months ending March 31. Much as is the case with charter schools in general, about half of Edison’s schools have not been measurably successful—including an Edison school in East Palo Alto that has been placed on the state’s list of underperforming schools, according to Darling-Hammond.

If classic market mechanisms aren’t necessarily the answer to school reform, what else can business offer?

The kipp Foundation believes it has answers and a model for success that draws heavily on business management concepts that can be learned and theoretically transplanted across diverse localities. kipp—the acronym stands for Knowledge is Power for Progress—is not an EMO seeking the elusive economies of scale. It’s a training organization that guides a branded network of autonomous charter schools in what it believes are proven principles for turning around failing schools. The major distinction in its approach is the marathon classroom hours that are required of every kipp academy. The school bell rings at 7:30 a.m. and students don’t go home until 5 p.m.—not to mention the additional hours they’re required to attend on Saturdays under kipp’s principle that “there are no shortcuts.” Lisa Daggs, MBA ’96, yet another joint master’s degree holder in business and education, is chief of staff for the kipp Foundation in San Francisco. Daggs became a Teach for America corps member after earning her bachelor’s degree in economics from Stanford in 1991. She had her trial by fire teaching fifth grade in a crumbling Oakland public school, where she became frustrated by the institutional inertia of the traditional and, in her school’s case, substandard learning environment.

“I felt there had to be some things the private sector was doing that I could apply to education, but I didn’t know exactly what these were. It seemed the bureaucracy within the Oakland school system wasn’t the answer and there had to be a better way,” says Daggs, who after graduate school spent several years as a consultant at Deloitte Touche Tohmatsu before returning to the education fold. Part of kipp’s solution for schools in crisis is the Fisher School Leadership program, which indoctrinates its network of educators in an 8-week course in education management at the University of California’s Haas School of Business. Funded by Gap Inc. founders Doris and Donald Fisher, the program uses case-study and role-playing techniques to offer its students rigorous training in general management as well as in specific tasks of administrating charter schools and developing innovative classroom teaching plans.

Julien Phillips, MBA ’70, executive director of San Francisco–based Partners in School Innovation, takes another approach to reforming public schools with best practices from business. Phillips trains AmeriCorps members for classroom duty—but not as teachers. His organization dispatches smart manpower to troubled schools in low-income districts in the Bay Area to help lift the burden from harried teachers and principals. In this support role, they focus on such tasks as analyzing student test results and helping design teaching plans to meet the needs of individual students in the classroom. Once a Peace Corps volunteer in Peru who later became a partner at McKinsey & Co. specializing in organizational change, Phillips says his tactics are gentle but highly effective. “If we act as if we know how to run schools better than the people in the system,” he says, “we’ll be rejected.”

Karl Schoenberger is a former correspondent in Asia for the Los Angeles Times, Fortune, and other news organizations. He is the author of LEVI’S CHILDREN: COMING TO TERMS WITH HUMAN RIGHTS IN THE GLOBAL MARKETPLACE (Atlantic Monthly Press, 2000).
F rom 7 a.m., when Martha Wiley walked into her 10th-floor office, she has sprinted from one meeting to the next, stopping only for a one-hour workout. Before she rushes home to relieve her nanny, she has one final meeting at 5:30 with one of her most valued employees, who requested time to talk about “the future.” The employee, fidgeting nervously, explains that since returning from maternity leave with her second child, she has found it increasingly difficult to be in the office five long days each week. She needs to find an alternative way to continue performing her job.

In just 30 minutes, the two women agree to a plan: The employee will work two days from home and three days in the office, and every other week she will take one day off. Martha's only request is that the employee remain flexible and be willing to come into the office when it is absolutely necessary for her work.

At 44, Martha has spent the past 10 years working her way up to her position as senior vice president and highest-ranking woman in the real estate division of a Seattle financial institution that I will call by a pseudonym, Western Financial. (Except for scholars named in this article, all the names of people and organizations have been changed to protect their privacy.) Martha has actively looked for opportunities to initiate changes that accommodate working parents and that make her department more hospitable to women and people of color. A full 30 percent of her staff work an alternative schedule despite a lack of formal policy to guide these arrangements. Martha has little doubt that her experiments in flexible work, even though she has kept them quiet, have been slowly paving the way for broader changes at Western.

This quiet and persistent approach to organizational change is typical of how Martha and countless others lead change in their workplaces. Martha's agenda is bold—she wants nothing less than to make the workplace just and humane—yet her method of change is modest and incremental. She balances the need to fit into the established culture against her commitment to act on personal values that often set her apart. As a result, she continues to rock the boat, but not so hard that she falls out of it.

All types of organizations—from global corporations to neighborhood schools—have Marthas. They occupy all sorts of jobs and stand up for a variety of ideals. They engage in small, local battles rather than wage dramatic wars. But these men and women of all colors and creeds are slowly and steadily pushing back on conventions, creating new understandings, and inspiring change within their organizations.

Sometimes people like Martha pave alternative roads by quietly standing up for their personal values or by refusing to silence aspects of themselves that make them different from the majority. Other times they act more deliberately to change the way the organization
does things. They are not heroic leaders of revolutionary change; rather, they are cautious and committed catalysts who keep trying and who slowly make a difference. They are “tempered radicals.”

BEGINNINGS AT THE GSB
IN THE EARLY 1980s, when I was a doctoral student at the Stanford Graduate School of Business, Maureen Scully, another student, and I found ourselves feeling like “poor fits” in our chosen profession. We did not have to look far to find others who shared our sense of misalignment. We were advisees of Professor Joanne Martin, the first tenured woman at Stanford’s Business School. Behind the closed doors of her office, she shared with us some of the dilemmas she faced in balancing the demands of the male-dominated culture of the Business School with her own progressive ideals and the needs of her family. We watched her navigate between her commitment to maintain her credibility within the mainstream of the profession and at the same time advance a social agenda that involved opening opportunities for women and minorities and breaking down boundaries within the profession. Her career entailed an ongoing “swim against the tide,” as she has called a chapter about her experience in a forthcoming book.

When Maureen and I proposed research challenges faced by women executives, we were strongly advised by faculty against taking up such a heated topic at the formative stage of our careers. We were told we needed to build our credibility first. Eventually we returned to our interest in women executives and expanded our focus to include others who feel at odds with their institutions and want to effect change. We coined the term “tempered radical” to capture the competing pulls faced by these individuals and the delicate balance between conformity and rebellion they must sustain.

Since our published article on tempered radicals in 1995, I have heard from hundreds of people—many of whom would never consider themselves “radical”—who recognized their own experiences in our descriptions of tempered radicals. Based on these responses, I expanded our original portrait and conducted additional interviews, first with 128 people in three quite different companies and then with 36 additional individuals who self-identified as change agents. This research allowed me to write a book for many different types of people who might be tempered radicals, even if they don’t realize it.

Though the profile of a tempered radical should apply to anyone who feels at odds with his or her organization in some fundamental way and wants to use his or her difference as the impetus for change, I restricted my research to tempered radicals whose values are more progressive than the majority—environmentalists in for-profit companies, parents who want to create family-friendly workplaces, women and people of color who want to remove obstacles, gay employees who want to be treated equitably, and innovators who advance progressive ideals, to name just a few cases. I did not study people who advance values that are more conservative than the majority, though I think many of the same principles that emerged from my research would apply.

TEMPERED RADICALS AS “EVERYDAY LEADERS”
WHEN I ASKED PEOPLE at Martha Wiley’s company who they thought had made a real difference in the organization, many people, and particularly people of color, pointed to Peter Grant, an African American executive who spent 30 years working his way up the corporate ladder and bringing hundreds of others up with him. His colleagues described Peter as an inspiration, coach, mentor, and catalyst of a quiet and slow cultural transformation. One middle manager described how Peter had kept him going by showing him how his struggle to succeed was not just about his personal success. “He didn’t let up on me, but it was the most caring exchange I can ever remember having at work,” the manager said. Another executive told how Peter had helped her land a plum job in another area of the bank, which turned out to be a platform for a brilliant career. Since then, she has followed his lead, actively recruiting and mentoring other minorities.

Despite this legacy, I doubt that Peter will be written into the company’s history books as one of its most influential leaders. He never visibly took the helm of a dramatic transformation or organization-threatening crisis. He never formally led from the very top of the organization. Yet people throughout the organization viewed him as one of the most important people in their professional lives. They were mentored, taught, and inspired by him. Many others recognized the cumulative cultural impact of Peter’s persistent yet quiet efforts to effect positive change within the organization.

Like Peter, other tempered radicals act as “everyday leaders” who make a difference in the course of their daily actions and interactions. By opening the boundaries of inclusion, pushing back against prevailing norms, and creating new conversations and learning, they lay the groundwork for slow yet crucial organizational adaptation. This surely represents an important and underappreciated sort of leadership in organizations and society.

We can find traces of this humble form of leadership operating behind the scenes of most significant social or organizational transformations. If we look, for example, at the U.S. civil rights movement, we find countless individuals leading tirelessly outside the spotlight. While history records the names of a few of the more visible heroes—Martin Luther King and Rosa Parks, to name two—it leaves out all the others who played crucial backstage roles in generating the momentum of social change.

The same is true of many of the people I studied. They don’t flash brightly on the cultural radar as rebels or change agents. Yet the footprints of their efforts are everywhere, and their leadership takes many different forms.

Some tempered radicals leave their mark as leaders of people. Martha Wiley’s employees looked to her as one of the best managers because she allowed them to be themselves, created conditions that enabled them to shine, and championed their successes. Other tempered radicals make a difference by leading change, drawing on a spectrum of strategies from the most quiet personal approaches to more public collective ones.

On the most quiet end, some tempered radicals inspire change simply by behaving in a way that is consistent with their personal values, but in so doing they disrupt established norms. For example, John Ziwas, an ambitious manager in a business development department of a fast-growing, high-technology company, wants to continue to advance in his career but is unwilling to shirk his duties as parent and partner to do so. But it isn’t that easy. John, like his wife, faces pressure from his organization to work all the time and to choose between his commitments to his work and to his family. He resists pressure to make such choices and, in so doing, he challenges prevailing expectations.

For example, John consistently leaves work by 6 p.m., rarely schedules meetings that run later than this, and generally refuses to take calls at home between 6:30 and 9 p.m. so he can spend time with his family. Though he often works late at night from home to meet performance expectations, his schedule initially caused his
boss to doubt his commitment. But people respected his performance, and his boss did not want to lose him. Eventually, people in John’s group adjusted to his schedule, and conference calls and meetings that involved him stopped being scheduled after 5 p.m. This evolved into an unstated rule within his group that all meetings should be scheduled to end by 5:30, and soon a strong norm emerged against calling people at home during dinner hours.

Productivity did not suffer, and virtually everyone appreciated these changes. What started as John’s simple adherence to his personal values and priorities created some significant shifts in cultural expectations about time and ultimately worked to the benefit of many people besides himself.

Sometimes tempered radicals lead change in a more public and deliberate manner by forming or joining a group or task force to advance more sweeping organizational changes. Other times they start small and provoke change by initiating what Karl Weick, a professor at the University of Michigan, terms “small wins,” which are “controllable opportunities that produce visible results.” For example, a person who wants to make a corporation more environmentally sustainable places a green bin under everyone’s desk so people don’t have to get up and walk to the nearest recycling receptacle and makes sure that the cleaning staff are paid to collect the recyclable waste.

Through small wins are relatively simple to initiate, they need not stay small. Tempered radicals broaden the impact of their small initiatives by addressing the competing pulls of their personal values and the surrounding culture. For this reason, many tempered radicals are characterized by a set of dualistic, even paradoxical, qualities. Perhaps the most important quality of effective tempered radicals is that they know who they are and what is most important to them, and they stay firmly committed to these ideals and values. Yet even as they stay anchored to these core commitments, they are flexible about how and when they act on them. This flexibility allows them to improvise, ultimately making them more effective in achieving desired ends.

Tempered radicals also are inclined to favor action, yet at the same time they are marked by their patience. The most effective tempered radicals are the ones who have the patience to wait for the right opportunity to act but who act on that opportunity—regardless of how small it may be—without hesitation. Tempered radicals who seek long-term cultural change also have the patience to endure setbacks and the persistence to keep acting in the face of them.

Tempered radicals act as individuals to make a difference, but they also know that they cannot do it alone. They build connections to people who share their identities and change agendas and those who don’t. These relationships are essential to keep tempered radicals going, to help them affirm their sense of self, to aid them in their efforts to broaden their impact, and to forge collectives when necessary to drive larger institutional change. Most important, relationships prevent isolation and loneliness—a fate that can easily sap the energy and effectiveness of tempered radicals.

I am not suggesting it is easy to be a tempered radical—but neither is it impossible. The people portrayed in my book are ordinary people. Most have advanced steadily in their careers while balancing competing pulls. They face ongoing setbacks that continually test their commitment and patience. Some tempered radicals ultimately give up. But many others persist, working in a wide variety of ways to advance their ideals and make a difference.

In the process, tempered radicals inspire people, and they inspire change. They inspire by having the courage to tell their truths when it is difficult to do so. They inspire by demonstrating the commitment to stay focused on their larger ideals even when they suffer personal setbacks and receive little recognition for their efforts. Their leadership does not rely on inspiring through heroism and headlines. Their leadership inspires—and matters—in big and small ways every day.

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School Welcomes 12 New Faculty

The business school’s 12 new faculty members this academic year include two professors of accounting, an associate professor of marketing, and nine assistant professors.

The accounting specialists are Madhav Rajan, who comes from the Wharton School at the University of Pennsylvania, and Stefan Reichelstein from the Haas School of Business at the University of California, Berkeley. Rajan’s research interests include optimal choice of performance measures, performance measurement and learning, organizational design and management control, and incentives in interfirm relationships. He will teach the MBA core course Managerial Accounting and an accounting elective. Reichelstein works primarily in the marketing, and nine assistant professors.

The new assistant professors cover a wide range of specialties.

The GSB attracted a large group of new faculty in 2001, including accounting professors Madhav Rajan (left) and Stefan Reichelstein.

School of Commerce and Business Administration, University of British Columbia. His research centers on marketing and consumer behavior; specifically, judgmental prediction, constructive processes in social judgment, and individual differences in construal biases. He will teach an MBA elective course in consumer behavior and a doctoral course in marketing.

The new assistant professors cover a wide range of specialties.

Daniel Byrd completed his doctorate in corporate strategy and international business at the University of Michigan Business School. His research in interorganizational relations within the field of organizational psychology focuses on the manner in which organizations learn from each other and to what extent learning affects performance and organizational change. He will teach the MBA core course Strategy and Organization in the Global Economy.

Michaela Draganska completed her doctorate in marketing at Northwestern University. She uses econometric techniques to study firms’ choice of product scope. She will teach an MBA elective course in marketing research.

Leslie Hodder completed her doctorate in accounting at the Graduate School of Business, University of Texas at Austin. The current focus of her research in financial reporting is on financial services firms. She will teach the MBA core course Managerial Accounting and an accounting course for the economics department.

Mikolaj Piskorski completed his doctorate in organizational behavior at Harvard Business School. In the field of organization theory and strategy, his work covers such areas as networks, economic sociology, corporate governance, and venture capital. He will teach the MBA core course Managing Organizational Networks and the doctoral course Perspectives on Organization and the Environment.

Katja Seim, who completed her doctorate in economics at Yale University, researches the empirical and theoretical analysis of ways in which firms differentiate their products. She will teach the MBA core course Data and Decisions.

Tunay Tunca, who completed his doctorate in operations, information, and technology at the GSB, studies the structure and performance of financial markets to examine how the mix of rational liquidity-motivated traders and insiders affects market performance. He will teach the MBA course Management in an Information Age.

S. Christian Wheeler completed his doctorate in marketing at Ohio State University. His research centers on repeated auctions and price adjustment processes, with an interest also in the area of stereotyping and decision making. He will teach the MBA core course Marketing Management.

Justin Wolfers completed his doctorate in economics in the Harvard economics department. He conducts research spanning the area from labor economics to political economy. He will teach the MBA core course Strategy in the Business Environment.

Eric Zitzewitz, who completed his doctorate in industrial organization and international business at MIT, studies industrial organization, particularly in the application of
theory and empirical methodologies to economics, strategic management, and finance. He will teach the MBA elective course Competitive Strategy.

Joanne Martin, the Fred H. Merrill Professor of Organizational Behavior, recently received three honors. She was named International Woman of the Year by the International Biographical Centre, received an honorary doctorate from Copenhagen Business School, and was named to the advisory board of the International Centre for Research in Organizational Discourse, Strategy, and Change of the Universities of Melbourne, Sydney, and London and at McGill University.

Darrell Huffie, the James Irvin Miller Professor of Finance, has agreed to join a new academic research and advisory committee assembled by Moody’s Investors Service and Moody’s Risk Management Services. The committee is an outgrowth of Moody’s past support for academic research in credit and credit-ratings–related areas of finance and economics, said Moody’s President John Rutherford. Two Moody’s researchers will also be part of the group, which will include seven European and North American academic experts. Members will review each other’s research findings, generate new research projects, and explore collaborative projects. Duffie also has been appointed a research associate of the National Bureau of Economic Research.

The Leadership Education and Development Program (LEAD), which helps prepare minority students for careers in business, has named Assistant Professor Sonya Grier one of three outstanding persons among its 6,000 alumni/ae. A national partnership of leading U.S. corporations and graduate business schools, LEAD recognized Grier not only for her professional contributions but for her continued service to the organization. Grier was in the first LEAD program in 1982. Her work is in the area of consumer and target marketing.

The International Foundation for Asset Management and Financial Engineering honored Ming Huang, assistant professor of finance, for coauthorship of the best paper in 2000 in the foundation’s area of expertise. The paper related asset pricing to market expectations.

Based on the number of articles he has published in the Academy of Management journals, that academic organization recently awarded Charles O’Reilly its 2000 bronze medal for research publications. The Business School’s Frank E. Buck Professor of Human Resources Management and Organizational Behavior, O’Reilly also received the academy’s award for the best paper on organizational behavior in 1999.

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New Supply Chain Business Models: The Opportunities and Challenges
D. Anderson and Hau Lee
One of the toughest challenges faced by a product design team is concept selection—comparing any number of potential product ideas in order to choose a winner. Traditionally, companies have relied on costly physical prototypes or complicated statistical analyses to test the preferences of consumers. Now the Internet offers a tantalizing option: virtual prototypes. “It’s a market research tool that has a promising future,” says marketing professor V. “Seenu” Srinivasan.

In a research study, selected in October as the best paper published in 2000 by the Journal of Product Innovation Management, Srinivasan tested the ability of Internet-based virtual prototypes to accurately predict consumer choice. He concluded that virtual prototypes provide nearly the same results as physical prototypes. Furthermore, virtual prototypes cost considerably less to build and test than their physical counterparts, so design teams using Internet-based product research can afford to explore a much larger number of concepts. “In short, the Web can help to reduce the uncertainty in a new product introduction by allowing more ideas to be concept-tested in parallel,” says Srinivasan, who is the Ernest C. Arbuckle Professor of Marketing and Management Science at the Business School.

Working with research coauthor Ely Dahan, a Business School PhD alum who is now an assistant professor of management science at MIT’s Sloan School of Management, Srinivasan pitted the virtual prototype against conventional market research methods, including both physical prototypes and nonvisual, attribute-only conjoint analysis—a complex statistical comparison of consumer trade-offs between price and other characteristics. Nine concepts for a new portable bicycle pump competed against two existing bike pumps in the tests, which surveyed respondents who were university students screened for bicycle use. Characteristics such as price, time for inflation, size, ease of inflation, and durability were included as product attributes. Both still-picture and animated virtual prototype tests produced market shares that closely mirrored those obtained with the physical products. And the visual prototypes outperformed the set of predictions produced in the attribute-only conjoint analysis, which failed to capture the aesthetic and usability aspects of the product.

Interestingly, says Srinivasan, the attribute-only conjoint analysis identified the top three products in correct order. However, it predicted market shares for the top three products to be well below those achieved using physical prototypes. This sort of forecasting gap may be filled at least in part by the realistic animations of virtual prototyping. Indeed, a key breakthrough in virtual prototyping that allowed the researchers to conduct their study has been the development of Virtual Reality Markup Language (VRML), which produces high-quality color animation within very compact data files that can be easily downloaded by consumer research participants in far-flung locations.

Yet virtual prototypes are not perfect. Sometimes there is a disconnect between the results of a physical prototype and a virtual one. In the Dahan–Srinivasan study, the Web-based survey predicted that a bike pump nicknamed Gecko could compete against the two commercially available products and ranked fourth in the market. But when customers handled the real thing, Gecko couldn’t score. It ranked last. One reason may be that the computer renderings of Gecko made it look and feel better in virtual reality. The fit and finish of the rubber material that gave Gecko its green, lizard-like texture and appearance was not of high quality, but that became obvious only when consumers actually touched the prototype.

The crucial question is which product characteristics are most accurately communicated only through a physical prototype? Sensory experiences such as smell, touch, and taste have yet to be mastered in a virtual environment. “It remains to be seen which goods are best suited to virtual, visual testing, but we expect that many durable goods categories can be represented accurately using animation and compared using the simulated shopping experience,” says Srinivasan. For unfamiliar
products, an educational step could precede the concept tests, say the coauthors. One thing is already clear: The Internet provides a cheap way to test more ideas than ever before. — BARBARA BUELL


Questioning Auditor Independence

In recent years, a dramatic increase in the revenues big accounting firms derive from management consulting services has raised a red flag about auditor objectivity. The Wall Street Journal reported in April, for example, that just last year Sprint paid Ernst & Young $2.5 million for auditing but $63.8 million for other work, including $12 million for the deployment of a financial-information system. General Electric paid KPMG $24 million for auditing but more than three times that for other services. This growing trend triggered the Securities and Exchange Commission to seriously question whether auditors have a conflict of interest that compromises the quality of an audit. Left unchecked, such conflicts could undermine the credibility of earnings statements upon which stock market activity hinges. Until now, the audit industry has disputed these claims, in part because there has been no evidence to suggest auditors have lost their objectivity.

But in a study analyzing the effects of accounting firms’ consulting business on the independence of their auditors, faculty member Karen Nelson and her colleagues provide the first hard evidence showing that the provision of nonaudit services impairs an auditor’s independence and dangerously stretches the bounds of accepted accounting practice. “Our motivation for doing the paper comes out of the SEC’s policy agenda of trying to crack down on so-called earnings management,” says Nelson, who is assistant professor of accounting at the Business School. “We were interested in whether public accountants really are performing their role as independent gatekeepers, or has it become a game of winks and nods between corporate management and the auditors because the auditors don’t want to lose these very lucrative consulting contracts.”

The study is relevant to SEC concerns about the increase in earnings management practices such as “big bath” charges (one-time write-offs), “cookie jar” reserves (setting aside funds to manipulate future earnings), and premature recognition of revenue. These are legal but sometimes dubious practices within the range of Generally Accepted Accounting Principles. The researchers looked to see if there was more creative accounting among companies that paid their accounting firms big consulting bills relative to auditing fees. There was.

Working with Richard Frankel at MIT’s Sloan School of Management and Marilyn Johnson at Michigan State’s Eli Broad College of Business, Nelson capitalized on data that has become available since February, when the SEC began requiring corporations to disclose all audit and nonaudit fees paid by a corporation to its auditor. The study was based on data from the proxies of more than 4,000 firms filed between February 15 and June 15.

The study looked at the ratio of nonaudit versus audit revenues paid by a corporation to its auditing firm. It found that more than half of the firms paid more for consulting services than audit services, and that more than 95 percent of firms purchase at least some nonaudit services from their auditor. The study also tried to gauge whether companies with less independent auditors stretch earnings to meet or beat analysts’ earnings predictions and project a smooth earnings path. Corporations are under enormous pressure, because failure to meet such predictions—even by a penny—can send a company stock into a tailspin.

The study found that corporations with the least independent auditors—those who paid the most in consulting fees versus audit fees—are more likely to just meet or beat earnings benchmarks, such as analysts’ expectations and prior year earnings expectations, and to report large discretionary earnings. This suggests more earnings management went on among companies in the sample that paid the highest proportion of management consulting fees to their auditors. “Taken together, our results suggest that the provision of nonaudit services impairs independence and reduces the quality of earnings,” the researchers write. “This evidence is important given the ongoing debate about the effect of nonaudit services on auditor independence,” says Nelson. “The SEC does not want earnings to be a fiction.”

The researchers also wanted to know if the new SEC audit fee disclosures are useful to investors. To find out, they measured the stock market reaction to earnings statements after the new SEC disclosure rules went into effect in February. The results showed a statistically significant stock price drop of four-tenths of a percent on the single day proxies were filed with the SEC among the 25 percent of corporations that paid the most in nonaudit fees to their auditors. That suggests institutional investors and other stock market investors were scrutinizing and discounting the earnings of firms with potential conflicts of interest.

The remedy for conflicts and earnings management? Some accounting firms have spun off their consulting firms as separate ventures, but the best solution, says Nelson, is full disclosure so that investors can judge the quality of financial statements for themselves and so that the SEC can monitor earnings management.

— BARBARA BUELL

Selling Violence to Children

The tragic shootings at Columbine High School and other campuses across the country brought renewed scrutiny to the link between youth violence and entertainment media. Then-President Bill Clinton commissioned a joint study by the Federal Trade Commission and the Department of Justice to investigate the marketing of violent entertainment products to youth. GS Business School assistant professor of marketing Sonya Grier served on the research team.

The investigators asked two key questions: Do film, music recording, and electronic game companies promote age-restricted products in places frequented by children? And do their ads target children and youth?

The answer was yes. “I don’t think that surprised people,” says Grier, who as visiting scholar at the FTC conducted the study with a panel of legal, economics, and marketing experts. What was unexpected was that the evidence came from the entertainment marketers themselves. “It wasn’t as if we designed ways to try to infer what they were doing or subpoenaed information,” says Grier. “The companies, at our request, submitted marketing plans that documented these practices.”

The report, released by the FTC in September 2000, caught the entertainment industry red-handed. While each of the three industry segments used differing systems of self-regulation, individual companies were guilty of prom背着 to children the very products their industry segments deemed inappropriate for those under the stipulated age restriction.

“Eighty percent of the studied R-rated motion pictures, 100 percent of the studied explicit-content-labeled music, and 70 percent of the studied M-rated games were targeted to consumers under 17 years of age,” says Grier in a spring 2001 academic paper about the report. In one instance, a video game marketing plan refers to the target market as “males 17–34 due to M rating” yet, parenthetically, “the true target is males 12–34.”

The report not only casts serious doubts on the ability of the entertainment industry to regulate itself, but for Grier, whose research interests include target marketing, it also documents the use of some shadowy practices. “Intentionally or not, they used a lot of marketing strategies and tactics that could be described as undercover—for example, street marketing that can’t be measured,” says Grier. She adds that most parents probably are not aware that their children could, say, receive a flyer for an age-restricted movie at a Brownie or Cub Scout meeting.

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Add to that the blurring of the lines between entertainment and advertising and the increasing crossover of content between industry segments, and there is little wonder that parents are frustrated at their eroding control over the inappropriate material to which their children are exposed.

Compounding the issue is the entertainment industry’s First Amendment shield against government regulation of content. Unlike tobacco and alcohol sales to minors, which have legal implications, regulations governing the sale of age-restricted electronic games, movie tickets, and music recordings to kids have no teeth.

While the FTC report did not enter into the debate about causes and effects of media violence, it did review existing scientific research on the subject, finding that a correlation exists between exposure to media violence and aggressive and sometimes violent behavior. The report also raised many questions about target marketing that warrant future in-depth investigation.

In April, the FTC issued what amounts to a six-month report card on the entertainment industry’s progress in bringing its marketing practices more closely in line with its self-made regulations. The results are encouraging. Both the motion picture and electronic games industries have taken steps to address the issue; however, the music industry has done nothing.

“With the least comprehensive rating system of the three industries, the Recording Industry Association of America has been very adamant that it’s impossible to rate music and words in the same way that you can rate video games. It’s complex,” says Grier. “Part of the dif-
Online Disclosures: Noise or News?

It’s obvious that the Internet has revolutionized the way people communicate with one another. Indeed, the Internet has enabled individuals to broadcast messages to a potentially vast audience at very little cost. On the flip side, the plethora of messages has led to a noisy environment, making the medium a less-than-ideal vehicle for meaningful communication.

Yet despite the volume of disclosures and the potential noise in the system, the often anonymous disclosure of information on the Web is finding a receptive audience, and useful information is getting through. Anat Admati, the Joseph McDonald Professor of Finance and Economics, and Paul Pfleiderer, the William F. Sharpe Professor of Financial Economics, set out to investigate how this process works.

Their research started with the notion that the key to culling information from the Web is sorting the nuggets of news from the noise. Further reading about the effects of Internet disclosure on various companies’ stock prices fueled their interest. In particular, they followed the case of the 14-year-old New Jersey boy busted by the Securities and Exchange Commission for profiting by dabbling in stocks he had researched and touting those companies on the Internet. Pursued on the basis of manipulation laws, the boy’s so-called crime is hard to distinguish from an analyst’s role. Using data from Amazon.com book review ratings as a model for Internet disclosure, Admati and Pfleiderer’s research has implications for any field affected by public disclosure.

The Web opens a whole new world where disclosure by individuals is extremely easy, says Admati. “In the past, you would have to buy an ad in the newspaper if you wanted to let people know your views on a book or some company’s stock” she says. For example, at Amazon.com, one needs only to check off a rating number and possibly add a few sentences to register an opinion on a book or product and become an instant reviewer.

In their study, Admati and Pfleiderer develop an economic model to address what happens when consumers, for whatever reason, want to share information with fellow consumers and they have a simple avenue to transmit their opinions. Will information be transmitted in the most efficient way when forces are allowed to work unhindered? And will results be distorted if it costs something to send the message or if some senders’ opinions are not relevant to others’ experience?

While Admati calls the model a simple one, it nevertheless lays the foundation for further research leading to increased understanding of the effects of financial and political disclosure in the new “Webbed” world.

They found surprisingly rich results. They assume that there is a finite number of “messages” the sender can use to communicate his or her information and that the sender is attempting to bring the receivers’ opinions as close to his own as possible. If both the senders and the receivers of information understand the true likelihood that the sender’s information is relevant, then the result is often that information is communicated in the most efficient way. Surprisingly, the most efficient communication might involve some messages being used less frequently than others. “There is a preponderance of extreme messages—a lot of five-star ratings, for example—with some available messages, like two-star ratings, essentially unused,” says Admati. “Our results are generally consistent with our observations that the customer rating levels on the Internet are not evenly distributed.”

A well-documented psychological phenomenon is that people are often overconfident concerning the usefulness and accuracy of their own knowledge and information. “If the sender in our model is overconfident,” says Admati, “in other words, he believes that his information is definitely useful while, in effect, there is a chance it is not, then the sender will exaggerate in his disclosure, choosing more extreme messages.” Nevertheless, overconfident senders may actually contribute to more informative communication. For example, if there is a small cost associated with broadcasting opinions, an overconfident sender is often more likely to be willing to incur the cost than a rational sender who realizes his information might not be useful to receivers.

“The Internet has dramatically changed the way investors and other economic actors can communicate. Understanding that process is critical to understanding how the financial market might behave in the Internet age,” Admati concludes. — HELEN K. CHANG

WHOS IN THE NEWS | A Roundup of Media Mentions

**Mum’s the Word**

“THERE’S NO FASTER WAY TO get turned down by a venture capitalist than to ask her to sign a nondisclosure agreement,” wrote second-year student Jamie Earle in a column for CNet News.com. “Considering that a VC can review a dozen business plans in a day, taking the time to review an NDA for each one isn’t productive,” says the former equity research associate for CS First Boston Technology Group. She tells the story of an unnamed entrepreneurial firm that was pressured to partner with one of its competitors as a result of disclosing information to a venture capitalist. Earle’s advice to would-be entrepreneurs is to first deal with “established VC firms with long-standing reputations.”

**The Soprano’s Godfather**

THERE WAS a twinge of irony in the decision of the Directors Guild of America to give an award this year to the chairman and CEO of HBO, Jeff Bewkes, noted the Hollywood Reporter. Bewkes’ only directing attempt was a documentary on a veal slaughterhouse that led to his finishing last in film class at Yale.

But Bewkes, MBA ’77, is known for taking a chance on creative directors and writers. When David Chase pitched a watered-down version of The Sopranos, Bewkes told him to forget about commercial appeal and go back to his original, more authentic idea. The serial drama about a mobster has been a major ratings and critical success.

**Analysts Bombed in 2000**

ADDING FUEL TO THE DEBATE over the value of stock market research emanating from Wall Street are research results from Business School professors Maureen McNichols and Ezra Zuckerman.

CBS MarketWatch reported on work by McNichols and her University of California colleagues that showed stocks that Wall Street analysts recommended buying or holding in 1999 plunged in value while their “sell” and other negative recommendations gained.

Business Week reported on work by Zuckerman and a University of Chicago colleague in which they concluded that social conformity influenced many analysts in the mid-1990s. Specifically, the researchers found that fewer than 5 percent of the forecasts issued involved explicit “sell” recommendations—usually issued by top analysts, who feel secure in their jobs, or by low-status analysts, who have little reputation to lose, but not by the vast majority in the middle.

**Battle at Sea Over Black Gold**

“One of the planet’s smallest seas has spawned one of the world’s most spirited land grabs,” the Wall Street Journal said this summer after an Iranian patrol boat armed with machine guns forced a British Petroleum PLC research vessel to turn around in the Caspian Sea. Stan Polovets, MBA ’89, is in the thick of the battle among oil companies and five nations that border the sea, which sits over promising oil fields.

Polovets told the Journal that Turkmenistan, the nation he works for as an adviser, would “soon take decisive actions of its own” unless neighboring Azerbaijan halted work on disputed blocks of the seabed and adopted “a more conciliatory position in negotiations.” Azerbaijan alarmed its neighbors by signing a deal with a BP-led consortium to develop three known oil fields off its shore.

Polovets, who was born in Russia and recently moved to Moscow, is founder of RPI Inc., a consulting firm that has assisted international energy companies with investing in Russia, other Caspian states, and the Baltic nations since 1992. Clients include BP Amoco, Shell, Mobil, Japan National Oil Corp., and FT Energy.

**Yogi CEO**

WHEN A DOCTOR first suggested he try yoga after injuring his foot in a Paris marathon, John Abbott, SEP ’78, thought “yoga was for the older ladies who wanted to lie on the mat and contemplate life.” But the Citicorp banker quickly became hooked, and after moving to California found himself consulting for and eventually buying the Yoga Journal from the California Yoga Teachers Association. Now a slick bimonthly, the journal’s circulation has more than doubled to 220,000 and ad pages are up 60 percent since Abbott took over in 1998, notes the San Francisco Chronicle. It doesn’t hurt that 15 million Americans participate in yoga, according to Time estimates.

**Not Bad for Bad Timing**

INVESTOR Richard Rainwater, MBA ’68, has made a fortune for himself and others several times, but he has the same pangs of doubt that amateur investors do, according to Fortune. “I’m never right on my timing. It’s pitiful. Macro it’s wonderful; micro it stinks,” says Rainwater, who read a 1992 book, Beyond the Limits, and decided as a result to invest in energy stocks when most folks were investing in dot-coms. His net worth fell $400 million. At the time of the article, however, Rain—
water was up $400 million on energy and $200 million on energy-related real estate, according to the magazine.

**He Should Have Played Baseball**

CEOs IN MOST INDUSTRIES made substantially more in 2000 than their counterparts a decade earlier, according to *Fortune*. In telecommunications, for example, the nearly $21 million compensation of AT&T’s Michael Armstrong outstripped that of 1990 industry leader Robert Allen, Sloan ’72, by 539 percent. Not so in the software industry, where the 2000 leader, Microsoft’s Steve Ballmer, Class of ’81, made $633,514 — 64 percent less than the 1990 leader, Josh Weston of ADR, and substantially less than the average 2000 major league baseball player.

**Customer Comeback**

WILL THE ABILITY to build and analyze massive databases of customer information lead to the return of the diversified company? the Financial Times of London recently asked. “If customer information is a strategic asset, you can see that there may be an argument for managing a wider range of businesses within the same entity,” Business School professor James Lattin told the paper.

Customer relations management, which involves making managers responsible for a set of customers, rather than a set of products, has become popular, said Lattin and professor emeritus David Montgomery. Customer value has replaced cost control, Montgomery said, “as the guiding principle of management.”

**Loyalty Begets Loyalty**

ATTRACTING GOOD management talent may be partly accomplished by treating well those who leave, according to a number of companies who have set up alumni associations and services. Alumni workshops and social events have paid off for Bain & Co. with second-year MBA student Katie Friedman, who told the New York Journal News that she is an “ambassador” at Stanford for her former employer. When GSb students were deciding between job offers from Bain and others, Friedman said, “I was absolutely plugging Bain because, most important, I had a great experience there, but also they have impressed me with the support and loyalty shown even to their alums.”

**Mixing Cement and Technology**

IN A SERIES on e-strategy leaders, the Economist extolled Mexico’s Cemex as “a rarity—a company in the industrializing world that has used e-business to steal a march on its rich-world rivals,” CEO Lorenzo Zambrano, MBA ’68, started the company on its current path by automating its cement plants and becoming an early adaptor of email and networked computing. Information technology upset the companies’ hierarchical traditions because it “frees up everyone’s imagination,” he says. Cemex is more profitable now than its international competitors, and 55 percent of its holdings are outside of Mexico. The company has spun off its IT arm into a consultancy to other companies. It also runs an online construction industry marketplace and an e-procurement site and is installing computers with Internet access in employees’ homes.

**Oklahoma’s OK**

BUSINESS STRATEGIES need to incorporate space and place considerations, says Stephen Roulac, PHD ’75, the founder and CEO of Roulac Group Inc., a consulting firm in San Rafael, Calif., that specializes in real estate. “People used to go where the jobs were, but now priorities have capsized,” Roulac said in Fast Company. “People are choosing more purposefully where they want to live, and then they are looking for a job.”

According to Stephen Roulac, location matters to job seekers.

They want a sense of community, good public transportation, and outdoor-recreation amenities, he added. A counter-intuitive location that meets those standards: Tulsa, Oklahoma.

**Don’t Bury E-Commerce**

FM RADIO WAS THE LATEST, greatest technology in the late 1940s, but it took 40 years for it to overtake AM, GSb professor Haim Mendelson observed in a San Jose Mercury News opinion piece on the current state of e-commerce. “Just as the meteoric rise of e-commerce was grossly exaggerated, so is the news of its death,” he said.

“As with the adoption of any new technology, this is a slow and error-prone process.” New technology usually augments, rather than replaces, existing technology, partly because consumers are slow to change their habits, he said.

The conversation is animated, the magazine reports, “with students planning happy hours from Hong Kong to Buenos Aires, debating laptops versus desktops, and sharing truck rentals for the trek from the Midwest to Palo Alto.”

**Hometown Hero**

NOW A BUSINESS CONSULTANT with McKinsey & Co. in Dallas, Michael Cruz, MBA ’00, became a hero in his hometown, Amarillo, Texas, after CBS anchor Dan Rather included Cruz’s life story in his book *The American Dream*.

Cruz’s business education began in the fifth grade, when he moonlighted alongside his parents in a cleaning business. Later, as a Yale student facing a financial emergency, he started a laundry and dry-cleaning service that eventually was used by a quarter of the university’s students. The success led him to see that opportunity was not limited to the well-to-do, so he papered Wall Street with his resume and landed an internship at Merrill Lynch.

“Perspective is a balancing act,” Rather quoted Cruz. “My first week in New York was the same kind of thing as when I first got to Yale. There was this homesickness, that kind of queasy feeling in your stomach.” Cruz found relief by establishing an SAT prep program for inner-city students through his church.
CAREER SERVICES
The alumni office offers the following career services:

- CAREER STRATEGY ADVISING
  To schedule an appointment call 650.723.9736.

- GLOBAL WORKPLACE
  A new service 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 650.723.9736 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 email groups (“mail groups”).

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

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 alumni_admin@gsb.stanford.edu.

CLASS NOTES
In each issue of Stanford Business magazine. Report news to your class secretary or to ClassNotes 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.

Alumni Resources
We’re planning a very special reunion weekend in the spring of 2002 for the classes of 1987, 1992, 1997, and 2001, who will be celebrating their 15th, 10th, 5th, and 1st reunions. Join us for two dynamic days at Stanford and a chance to reconnect with the Business School. There will be wonderful opportunities to catch up with old friends, spark ideas for the future, and have an all-around great time. Make your plans now for May 3-4, 2002, and watch for more details online and in the mail.

More information:
http://www.gsb.stanford.edu/alumni
650.724.4101
brown_lisa@gsb.stanford.edu

Spring Alumni
REUNIONS
May 3-4, 2002
At Your Service...

Career Services Resources

The SBSAA provides a range of career resources for GSB alumni. We invite you to take advantage of these services for your own needs and hope that you will look to your fellow alumni and GSB students to fill your future hiring needs.

- Alumni Online Directory – Recently Upgraded!
  “Solid Gold” resource for networking
- Individual Career Strategy Advising Sessions
  Tailored to your personal situation
- Mail Groups
  Keep in touch with classmates, share interests, post jobs
- MonsterTrak  New!
  Search for and post jobs
- Access HBS and Kellogg Employment Databases
  Find more jobs around the country
- Global Workplace  New!
  International job listings
- Workshops  Coming Soon!
  Career development experts presenting on critical topics
- Networking Lunches
  Share experiences and learn from fellow GSB alumni
- Access CMC Handouts and More Than 800 Career Links on the Web

Get Involved

- Post a permanent or summer job opportunity at the GSB
- Update your records in the Alumni Online Directory
- Invest time networking with other GSB graduates

Bookmark the Alumni Career Services Web site: http://www-gsb.stanford.edu/alumni/career/ or call 650.723.9736 for more information.