Mark your calendar for this special alumni conference. We have created a dynamic program that will bring you the latest research on current issues facing business leaders throughout the world. Join your fellow European alumni to hear from prominent GSB faculty including William Barnett, Robert Burgelman, Margaret Neale, George Parker, and Dean Robert Joss. The conference will provide many opportunities to strengthen your existing Business School relationships while creating new ones.

Invitations with complete program details will be mailed to all alumni living in Europe in January 2003. We hope you will be able to join us for this unique opportunity for academic enrichment, networking opportunities, and camaraderie with the extended Stanford Business School community.

For additional information on this and all our alumni programs and services, please visit our Web site at www.gsb.stanford.edu/alumni
14
A Season of Scandal
It has happened before; it probably will happen again. But this time, corporate America has lost the trust of millions of investors who have watched their nest eggs shrink. Seven faculty discuss what precipitated the storm and what lies ahead.
BY ANDREA M. HAMILTON

20
Who’s in Control Here?
The advance of technology is like a runaway locomotive, argues Professor Emeritus Harold Leavitt. He asks: Who controls the on/off switch? Are we headed for a train wreck, or can we pause long enough to consider our future?
Networking for Knowledge

ROGER Tjong FROM THE CLASS OF ’98 CALLED one day last spring to ask if this magazine was interested in an article on “vulture capital.” I said, “What’s that?” He said he didn’t know for sure, but he would like to find out. As a former reporter for The (gsb) Reporter, Roger said he previously had organized informational hunts by looking for people who are experts, asking them carefully selected questions, and then writing about what he had learned for other outsiders.

Extending his own contact list with names culled from the Business School’s alumni/ae database, Roger found plenty of expertise. As you will see on page 8, alums were willing to share their perspectives on vulture capital—also known as distressed debt investing—at a time when that field is hot. The alumni/ae database truly is the central element of the Alumni Association’s Lifelong Learning Web site precisely because you can use it to tap into such expertise within the network. If you haven’t used it as an informational resource yet, you owe it to yourself to try it out. Keep in mind that, because of security concerns, you need to sign up and select a password first. (Go to www.gsb.stanford.edu/alumni/directory.)

During his interviews, Roger learned so much that he had a devil of a time figuring out what to leave out of his article. We turned to other alums and asked them to read his draft. They confirmed how diverse you are as a group. Several objected to article terminology that they said was too specific to investment banking and not well understood in their own field of management. “We are a school of general management,” one alum reminded me, “which means we don’t all have the same backgrounds or interests. I want to know something about this field, but I don’t want to get into it myself.”

We hope you will find plenty in this issue that piques your curiosity. And if you are interested in changing careers, there is even an article on how the School can help—which also takes advantage of your group expertise (see page 10). Staying connected pays off.

Letters to the Editor

THE COVERAGE [August 2002] on terrorism, organizational ecology, global arbitrageurs, global labor standards, and oddsmakers regarding election results was good. More of this sort of coverage is a great idea.

L. J. HASTINGS, MBA ’40
La Canada, California

I READ WITH INTEREST THE correspondence in the August 2002 issue of Stanford Business magazine, especially the letter from Eugene Danaher.

As a ’61 MBA with lifelong business experience in the world of finance, I must admit I was ill prepared in some key areas of business dynamics. I am quite aware that the gsb is constantly upgrading and updating the knowledge base of its student body. There is still a distinct lack of understanding in the area of ethics (although Ted Kreps did try to hammer its importance at every opportunity!); the focus was and still remains to develop our Cartesian ability to analyze issues and find solutions. We were very skilled numerically and were given the false notion that numbers and a good analysis would solve any problem. If only it were so.

We were hardly made aware of the human dynamics in business and how to navigate the conflicting demands and ambitions from colleagues, superiors, and subordinates. Graduates were left to fend for themselves. In the end, we all learned in the school of hard knocks.

We can and should do better with the resources we have at the gsb. How about it?

HARI THAKUR, MBA ’61
Montreal, Canada

IN THE AUGUST ISSUE of Stanford Business you printed a fine story about the late Tom Harrell, rightly featuring his academic and scholarly accomplishments. To many of us who were his students, Tom was more than that. He was a wonderful human being.

In 1952, I was enrolled in Bus 270, Psychological Aspects of Business. The title seems clumsy today, but Harrell, then in his first year at Stanford, made it clear that motivating employees was a prime task of management. His textbook is still part of my library.

One of my most vivid memories of his class was an IQ test he administered to us all. My score was in the range of tepid bathwater and I was deeply worried. Tom, the humanist, put me at ease by suggesting that my approach to time-limited tests was all wrong. His advice served me well during the following years at Stanford.

After he retired, Tom contacted me while I was chair of the (Continued on page 6)
Old Truths, New World, Today’s Managers

People often ask me, “What are you teaching at the Business School—what’s new?” More recently, they ask how our teaching has changed or will change in light of the highly publicized losses, inequities, leadership failures, and even outright fraud of the past few turbulent years. My answer has three parts.

First, and most important, we teach the old truths of business. To be successful, any company has to: (1) attract and retain customers (one at a time!) by offering products and services of superior value; (2) charge a price that represents good value but which also covers the cost of production and distribution (which means the business must become proficient at production and distribution) and still provides a satisfactory return for the owners of the business; (3) attract and retain committed, motivated employees who make delivery of these sustained returns possible; and (4) continually earn community respect and support for the company.

These old truths have not changed and have not been repealed by any notion of a new economy. I find our alums take comfort in knowing that the core of our MBA Program is aimed at instilling a deep understanding of these truths, on mastering the foundational material that makes them workable for practicing managers, and in pushing students to think critically about their implications for one’s career and job choices.

But while there may not be a new economy, each generation of students is in a new world when it comes to the nature of the business environment. So my second point is that we have worked hard to improve our curriculum to prepare students to apply the old truths to the new world they will be facing. In particular, we have seen globalization, technology, and human resource management as dominant business issues and as critical new core features of our teaching and learning over the past decade and into the next. This new world is fast paced, full of change, complex, highly competitive, and extremely challenging when it comes to executing business strategies and achieving superior performance by combining teams of people with sophisticated information systems. Because of this new world, there is a lot of new material in our curriculum that was not there 10 and 20 years ago—but the old truths are still the foundation for our core program.

My third point is that it is today’s managers who have to integrate the old truths of business with the new environment to build enterprises that perform well for all their stakeholders. People change and adapt more slowly than technology or the competitive environment, and they need to be helped along by those who occupy leadership roles in our institutions. By gaining their trust and confidence, leaders have to earn followers and have followers who do the right things. Leaders set good examples, and they accept full responsibility for accomplishing the right outcomes. To lead, it takes discipline, integrity, emotional strength, personal humility, and lots of practice. It is not just about being smart—but also about having strong character.

We want to do more in the area of leadership development for our students. There are a number of relevant courses already in our curriculum, and we plan to supplement these with experiences that allow students to practice and build skills that enhance one’s prospects for success as a leader.

It is particularly in this third area of today’s managers where new things are happening and where ethics will rise in importance and relevance. Our goal at the gsb is to prepare students for satisfying professional lives—lives that will generally involve lots of decision making. Students leave here with great frameworks and foundations for decision analysis. They also leave with an awareness that decision making is not just about whether or not the numbers look good—but more important, whether the decision is the right one. This is the focus in all our classes across all the disciplines. The intense media coverage of recent scandals has sharpened our focus on ethics and heightens the critical importance of looking beyond the numbers and the legal minimum to determine what is the right way forward. I can assure all of you that our faculty is bringing ethical questions and discussions to the front burner, so that students understand throughout their careers the importance of confronting these issues.
Coming to Terms with Title Envy

After business school, Bruce Cozadd, MBA ’91, searched for a company that was not full of workaholics. “But then those bad genes took over and I started climbing the ladder because it was there,” Cozadd said of his experience at Alza Corp., where he became CFO and finally COO. He eventually resigned after the company was bought out and his position would have required much travel.

Now a “titleless” consultant with three children, Cozadd and his spouse-classmate, Sharon Hoffman, constrain their careers by setting a limit on the amount of child care they will hire. “Our nanny has never left later than 3 p.m.,” Cozadd said at a June discussion of work–family balance issues organized by the Alumni Affairs office. The focus was on the balance issues faced by men, because they have fewer opportunities than women to talk about the subject, said Linda Wells, MBA ’93, who organized the discussion.

Cozadd and Hoffman, director of the School’s MBA Program, sit down monthly to coordinate their schedules and make “horse trades” about the hours they each will be home, he said, confessing to occasional bouts of “title envy.” “You guys are all something,” Cozadd said to the men in the audience, “and I’m just me.”

“I was so ambitious, I couldn’t have done this right out of school,” added Jonathan Visbal, MBA ’84, about his decision to trade his career in international entrepreneurship for a lower-key role as an executive recruiter. “You only have 10 years to influence your kids, and after that society takes over,” he said, explaining why he had left work at 4:30 the day before to cycle with his two daughters and why he would attend a school party the next day.

How do you find a job with work–family balance? Eric Weaver, MBA ’92, founder of the nonprofit Lenders for Community Development and father of a toddler, suggested people focus their career by thinking about what things they like to do that “don’t have 10,000 other people beating the door down to do them.”

Recession Hits Student Pocketbook

The economic downturn led to a record need for financial aid among MBA students this year, according to financial aid director Colleen MacDonald, who estimates she will provide $4.3 million to MBA students, up from a record $3.9 million in 2001–02. During the 1998–99 academic year, when the economy was much better, the School awarded $2.2 million in MBA fellowships.

The proportion of students receiving aid has not changed that much, MacDonald said, but more of them have a need that is clustered around the mean, this year at $11,787. About half of MBA students qualify for fellowship assistance, and 69 percent apply for loans through the financial aid office.

A Generous Class in a Tight Year

IN A YEAR when money was scarcer than normal, the MBA Class of 2002 showed unusual generosity, setting a record for a class gift. As of July 8, an unprecedented 91 percent of the class had participated and pledged more than $311,000, shattering the old dollar record by more than $137,000.

The class also broke with the model of picking a specific building project to fund. Instead they helped support MBA fellowships and expansion of the second-year seminars, a year-old program that allows returning MBAs to spend an intensive week in a small group with a faculty member whose research interests them.

“The gift will be commemorated with a plaque in Knight Plaza,” Dean Robert Joss said. “We hope it will be the start of another great GSB tradition.”

Library Databases Open to Alumni

BUSINESS SCHOOL GRADS can subscribe to four popular online databases through a new service of the Alumni Association and Jackson Library. Staff negotiated with database suppliers to offer the service after...
a survey of alums showed high interest in the service.

From their homes or offices, alumni subscribers can research current business conditions in ABI/INFORM (ProQuest), get the latest technology news from Computer Database, conduct career searches or prospect for customers using ReferenceUSA, and track market trends in TableBase. The service is $150 annually for life members of the association; more for nonmembers. For more information, see www.gsb.stanford.edu/alumni/libraryaccess.

Student Changes ETS Test Policy

THE SAT AND GMAT test scores of disabled students who are granted extra time to take the exams no longer will be “flagged,” or pointed out, to colleges and others looking at results, thanks to the efforts of Mark Breimhorst, a second-year GSB student.

Breimhorst, who was born without hands, had requested extra time to take the Educational Testing Service’s business school admission test, the GMAT, according to press reports. His test results were then flagged with the words “nonstandard administration,” which, he believed, violated antidiscrimination laws. He filed a lawsuit and in a 2000 settlement, ETS agreed to no longer flag such test results. This summer the College Board, which develops the SAT and several other tests that are administered through ETS, also agreed to stop the flagging procedure as of Oct. 1.

The ruling has generated debate over who qualifies as a disabled test taker, but Breimhorst told the Associated Press it will “change the lives of people with disabilities. They don’t have to have this scarlet letter attached to their transcript.” Breimhorst, who has an undergraduate degree and a master’s in education from Stanford, runs a venture philanthropy organization that supports several nonprofits.

Online Class Notes Is on Leave

“How can I find our class notes online?” an observant 1996 alum from Tokyo asked in an email to this magazine shortly after the August issue was in the mail. If you were one of those who liked to read your class news online, you might be interested in publisher Cathy Castillo’s answer:

“We recently made the decision to take the ClassNotes section offline until we can create a protected site available only to gsb alumni/ae. We were worried that continuing to make this news public and therefore easily available to commercial search engines would make people stop talking about their families, their jobs, and the kinds of things we think most of you look for in that section. We’re sorry to remove what was a very popular part of our site, but we think eliminating even a slight risk of exposing too much of someone’s personal life is worth the inconvenience.”

Siebel Scholars Announced

They worked for major consulting firms, managed election campaigns, lectured on Chinese painting, and enjoyed salsa dancing and vegetarian cooking. They also were recognized for outstanding academic work during their first year at the Business School by being named the 2003 Siebel Scholars.

The five MBA students, Eric Bannasch, Jim Edmunds, Jimmy Price, Sweta Sarnot, and Craig Yee, were selected for the Siebel Scholars program by a faculty committee for their leadership and citizenship within the GSB community. The honor includes a tuition grant of $25,000 from the program, which was established by Siebel Systems in 2000.

Bannasch, who serves on the Stanford University Board of Trustees Development Committee, worked in the mergers and acquisitions group of Cisco Systems before entering the GSB and spent his summer at Viking Global Investors in New York. Edmunds, chairman of the GSB’s Have a Dream Program, spent the summer assisting Professor Jeremy Bulow in research on antitrust issues. He previously worked on Wall Street and managed a state representative’s reelection campaign in Texas.

VC Invests in Hometown Youth

Robert Kagle, MBA ’80, is best known in Silicon Valley as a savvy investor in startups. In Flint, Mich., the general partner in Benchmark Capital makes news for investing in startups of a different sort.

Kagle, who grew up in the industrial town, has not forgotten where he came from. In May he flew nine Flint-area teenagers to Stanford to be interviewed for the Quest Scholars Program. The program teaches high-achieving youth raised in poor households and neighborhoods how to prepare for admission to the nation’s top universities.

Founded by two former Stanford students, Michael and Ana McCullough, the intensive summer residential program now operates on both the Stanford and Harvard campuses. Of 42 students who were accepted nationwide into the program this past summer, nine were from Flint, thanks to Kagle, who also sponsored three Flint students the previous year.

Price has mentored local entrepreneurs and organized events for the Black Business Students’ Association. He has worked for major consulting firms and spent the summer as an associate of Oaktree Capital Management.

As a Stanford graduate student in industrial engineering, Sarnot was selected for the Asia-Pacific Scholars’ Program. While a consultant at McKinsey & Co., she participated in efforts to help her alma mater, the Indian Institute of Technology, define its strategic objectives. Sarnot’s most recent summer job was at Credit Suisse First
Boston’s technology investment banking group in Palo Alto.

Yee cofounded the Living Well Project, a minority community-based HIV/AIDS organization, and worked for other nonprofits and consulting firms. He will lead the School’s 2002 study trip to China and has consulted to private organizations on collecting Chinese painting and calligraphy. He recently completed a summer internship at Mckinsey & Co. in New York.

Journal Explores Life in the Electronic Age

Almost one-third of an average adult American’s day is spent with electronic devices—TV, radio, telephone, computer—that did not exist a century ago, says Norman Nie, a Stanford political scientist who studies the impact of information technology on society. Nie, who holds a courtesy appointment at the Business School, finds that in some cases, spending time on the Internet can have negative effects on personal life.

In research partly funded by the School’s Center for Electronic Business and Commerce, Nie and doctoral student Sunshine Hillygus report: “Internet use at home has a strong negative impact on time spent with friends and family as well as time spent on social activities, while Internet use at work has no such effect. Similarly, Internet use during weekend days is more strongly related to decreased time with friends and family and on social activities than Internet use during weekdays.”

Their report is one of the research articles in a new interdisciplinary online journal, IT& Society (www.ITandSociety.org), launched in August by the Stanford Institute for the Quantitative Study of Society and the University of Maryland’s Survey Research Center. Nie, who directs the Stanford institute, said the goal is to encourage scholars of different disciplines to share their research.

Future issues will deal with psychology, sociology, and economics. According to Nie, subjects may include the future of the workplace as society becomes saturated with broadband technology, enabling more people to work at home, and how the phenomenon of oppression has been altered by access to information technology.

Nie will teach a course on Internet technology and marketing at the Business School during winter quarter.

Letters continued from page 2)
department of management and marketing at San Francisco State University. He wanted to keep his mind active and wondered if I could offer him a part-time teaching assignment. Tom taught for us for many years with great distinction. More important, we became friends.

When we met again, Tom floored me by recalling the IQ test. Among the delights of catching up were the lunches Tom hosted at the Stanford Faculty Club. Conversation was always stimulating, and comparing our institutions was always constructive.

With Tom Harrell’s death, we are all losing a gentleman. In a time of ever-diminishing civility, may all of us who knew him refresh ourselves by recalling this man of true value.

Klaus Schmidt, PhD, MBA ’53
Brooklin, Maine
Her Personal Everest

ERIN SIMONSON, MBA ’94

It reads like a romance novel: “Leaving her successful investment banking career behind, Erin journeys to Mt. Kilimanjaro to rekindle her passion for climbing and during the ascent meets Eric, the professional mountaineer who will one day become her husband.”

For Erin Copland Simonson, MBA ’94, this is no fairy tale. She is now head of finance and business development for International Mountain Guides, a company founded by her husband. “I married my job,” Simonson quips. “For us, it was a strategic merger.”

She immediately saw the potential to grow the company into one of the world’s premier commercial climbing companies, managing treks from Everest to Aconcagua. Recently, she put inspiration and her MBA to work by organizing the first-ever U.S. women’s team to ascend Mt. Everest. With a team member, she recruited Ford Motor Co. to underwrite the expedition.

Collaborating with the agency J. Walter Thompson, Simonson promoted five amateur climbers to the media and secured feature coverage, including an on-mountain camera crew from Discovery.com and appearances on NBC’s Today. Weather turned the team away at the summit on May 18, but Simonson was thrilled they made the safe decision to turn back from 28,000 feet.

Though she has organized high-profile climbs in the past, “undertaking this effort was my own personal Everest,” she says, noting that she has a toddler now. In 1999, she orchestrated a research expedition that successfully located the body of one of the first known Western climbers, George Mallory, who disappeared in 1924.

Since her Kilimanjaro climb in 1995, Simonson’s life has been an adventure, and she is a strong believer in taking entrepreneurial risks in areas of personal passion. She readily admits she “can’t imagine putting stockings on again every morning.”

Her plan is to continue to organize climbs and grow the business. She highlights an upcoming trek for amateur climbers to Mt. Kilimanjaro—ready for some adventure in your life? —AMY PAULSEN, MBA ’93

Journey to Afghanistan

NANCY GLASER, MBA ’85

It’s not every New Year’s resolution that changes the world. Nancy Glaser’s last one was to take meaningful action in response to the events of September 2001.

Within days, she found herself in the company of people from the Afghan Center of Fremont and the Foundation for Global Community of Palo Alto considering how to rebuild war-ravaged Afghanistan. By May, with funding from the Charles Stewart Mott Foundation, Glaser, MBA ’85, and six other volunteers were in Kabul, formulating strategies for economic renewal with government officials, returning refugees, and representatives of nongovernmental organizations.

“The first thing we saw was the destruction, especially poignant in the company of my Afghan American colleagues who had not been to their country for years and were kissing the ground in front of bombed-out sites where their homes used to be,” Glaser says. “But even with all the devastation, there was so much hope. Turning aid containers into shops, people had already set up a bazaar on a dry riverbed.” She described women swathed in burqas and speaking perfect English (learned in refugee camps in Pakistan). Eager to be working, they presented her with resumes. She also saw school classes meeting under trees that included girls for the first time in six years.

Glaser’s background in retail, venture capital, and venture philanthropy bridges the for-profit and not-for-profit worlds. She says she loves translating business development ideas into different cultures. She spent the summer after graduation in Thailand on a SMIF (Stanford Management Internship Fund) grant, and she has organized startups in Russia and Poland. She is now chair of the GSB’s Alumni Consulting Team program, which links alumni volunteers with public-benefit organizations.

Her 2002 New Year’s resolution will change many lives, for the result of her three-week Kabul trip is the Arise Project, which trains Afghans for employment so they may quickly be self-supporting and contribute to rebuilding the civil economy. (See www.ariseproject.org.)

—LISA EUNSON

people
Distressed Debt Draws Investors

Investing in troubled economic times can mean creating opportunity out of misfortune. Some call it “vulture” investing, but it gives dying companies a second chance for survival.

Some observers say too much money is chasing too few opportunities. Stanton’s classmate Marko Dimitrijevic, who runs Everest Capital, a multistrategy hedge fund in Miami that has a strong focus on distressed debt, disagrees. “I believe the enormous explosion on the supply side caused by the fallen angels and some large bankruptcies has more than made up for the increase in demand.” Dominique Mielle, MBA ’98, of Canyon Partners, a multistrategy hedge fund in Los Angeles founded by Drexel alumni, is less sanguine. “That new supply is mostly from very large public cases that are widely scrutinized, which makes it hard to have a real competitive edge,” she says.

Stanton predicts casualties among market participants. “It is not a case of a rising tide lifting all boats,” she says. “A couple of people will make a spectacular amount of money, but some players will just blow up. One of the key skills is to know when not to invest. That will be the big differentiator in the next year or so.”

If in some ways distressed debt has replaced venture as the hot area for investment, the mandate of a venture capitalist stands in stark contrast to that of a distressed-debt investor. Where a venture capitalist is a visionary looking for the next breakthrough technology, a distressed-debt investor is inherently a cynic with a show-me mentality and a religious focus on numbers,

Fortunes turned sharply in 2001 for venture capitalists, entrepreneurs, and investment bankers, but one group of the School’s alumni began to thrive. Investors in the world of distressed debt are busier than ever, and their numbers have multiplied. While some observers sound a cautionary note and point to a parallel with the VC frenzy of the late nineties, distressed-debt veterans will tell you this is a very different business, with very different challenges and, perhaps most important, very different people.

When companies get into financial trouble and become candidates for bankruptcy, they draw the attention of distressed-debt specialists who scope the market for undervalued debt securities of troubled companies. The current chaos offers a great opportunity by many measures. The number of corporate bankruptcies, the default rate, and the number of “fallen angels”—investment-grade companies that are downgraded to a high-yield rating—are all at cyclical highs.

With talk of opportunity in the face of other people’s woes, it is not surprising that distressed-debt investors are often labeled “vulture investors.” But this ignores the value these specialists bring to the reorganization process, providing a way out for the original investors.

Says Peter Copses, MBA ’86, a partner in the private equity firm Apollo Management in Los Angeles: “The label ‘vulture investor’ suggests you are capitalizing on someone else’s misery. In fact, what is happening is that something that started out as a debt security is being transferred from a traditional fixed-income investor to someone who is willing to hold what has economically become an equity security—and suffer the pain of seeing a company through a tough reorganization.”

Distressed-debt investors also bring a rational perspective to negotiations. “The most difficult negotiations are when original investors are still holding paper and have seen it go from 100 to 20,” says Janice Stanton, MBA ’85, a partner at Connecticut-based Contrarian Capital Management. “There is so much anger, and ultimately it does not advance the process.”

Some observers say too much money is chasing too few opportunities. Stanton’s classmate Marko Dimitrijevic, who runs Everest Capital, a multistrategy hedge fund in Miami that has a strong focus on distressed debt, disagrees. “I believe the enormous explosion on the supply side caused by the fallen angels and some large bankruptcies has more than made up for the increase in demand.” Dominique Mielle, MBA ’98, of Canyon Partners, a multistrategy hedge fund in Los Angeles founded by Drexel alumni, is less sanguine. “That new supply is mostly from very large public cases that are widely scrutinized, which makes it hard to have a real competitive edge,” she says.

Stanton predicts casualties among market participants. “It is not a case of a rising tide lifting all boats,” she says. “A couple of people will make a spectacular amount of money, but some players will just blow up. One of the key skills is to know when not to invest. That will be the big differentiator in the next year or so.”

If in some ways distressed debt has replaced venture as the hot area for investment, the mandate of a venture capitalist stands in stark contrast to that of a distressed-debt investor. Where a venture capitalist is a visionary looking for the next breakthrough technology, a distressed-debt investor is inherently a cynic with a show-me mentality and a religious focus on numbers,
The End of Business Schools?

Students must take a more active learning role, says professor

It’s not quite like predicting the apocalypse, but a gsb faculty member and graduate student speculated recently on some emerging problems that threaten the continued success of business schools as we know them. In the inaugural issue of an academic journal, The Academy of Management Learning and Education, Professor Jeffrey Pfeffer and doctoral student Christina Fong say people want management education more than ever. In the future, however, they may obtain it from alternative suppliers unless academic business schools shore up their curricula and methods of teaching.

Pfeffer and Fong’s analysis of the business education industry generated media reports, most of which focused on the article’s assertion that there is little or no evidence that an MBA degree increases a person’s later earnings. The critique is not specific to any school and partly reflects the vast growth in the number of MBA degrees granted annually in the United States, from around 3,000 in the mid-20th century to more than 100,000 today. The degree also has caught on in Europe and Asia. “It is actually one of the larger U.K. export industries,” Pfeffer noted in a conversation with Business School staff in late July.

Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior, conceded that average post-degree salaries for gsb graduates were substantially larger than pre-degree salaries. “The data are clear that if you are going to go to a business school [to increase earning power], you had better go to a top-10 one,” he said.

But he added that there are other paths to workplace promotions and people should not come to the gsb unless they are prepared to be “active participants” in their education. He summed up years of education research this way: “To the extent you are a passive recipient of information, you don’t retain very much.”

Students too often sit in class “expecting to be entertained” by lecturers, he said, and “the faculty is often extremely explicit in this” passive style of learning, which is associated more with colleges of arts and sciences than it is with other professional schools, such as law and medicine. He praised Business School Dean Bob Joss and Associate Dean David Kreps for taking steps to add clinical or experiential components to the curricula over the next several years. “I think there is a serious effort going on here to broaden, enrich, modify, and change the educational experience to make it more true to what we know it should be.”

Pfeffer noted that much of what he and Fong concluded about teaching in business schools is not new. In 1989, Professor Emeritus Harold Leavitt made similar arguments, he said, and the Association to Advance Collegiate Schools of Business, the accrediting group, has said similar things in reports dating back to the early eighties. Business schools may have more incentive to change now, he added, partly because “the MBA market has overexpanded, and there are many more competitive providers of management education and research than there used to be.”
Help for Alumni in Career Transition

If you’re out of a job right now, you’re in good company. The Business School offers an array of workshops, counseling, and online services to recharge your career.

Executive recruiter Steve Balogh, MBA '73, offered career assistance for GSB alumnae at School-sponsored workshops held in London, New York, Los Angeles, and Chicago last spring.

Balogh believes those who attended the workshops offer a true reflection of the current job situation. “Many had been out of the GSB five years or less and were statistically more likely to be hit by the current economy,” he says. “They were stranded in places where they didn’t know quite how to go about getting jobs in old-economy, traditional companies. Roughly half were in the middle of an employment transition—either out of work, or soon to be, and looking—and another quarter were afraid they’d be next.” Of the people Balogh counseled individually, about 75 percent were in transition.

You’re not your job title

As Balogh talked to the panelists and listened to participants, he compiled a list of tips. And while most are aimed at the young, high-tech folks who populated the workshops, anyone in search of a new position anytime would do well to consider these.

- Remember that you are not your job title. Separate your life from your work.
- Move past the shame and blame of a job loss to celebrate the chance for a new direction. Accept the fact that your next job may not be your dream job, but think about how it can be the bridge to a new industry or company, or even to one of your personal passions.
- Don’t let the silence get you down. The most frustrating thing about job hunting is not rejection, it’s the lack of response to your inquiries.
- Take time to reflect on lessons learned in the past week or month. Then set a plan of action for the next period.
- Focus on what you want, and pound the pavement to develop the necessary connections to get you in the door. Try to connect to target companies and individuals at trade shows, professional events, conferences, and career workshops.
- Stay in touch with your friends. Start your own personal support group, an advisory team that you can be accountable to from time to time. Don’t be shy about making your interests and needs known.

And it might also be said, stay in touch with the GSB. First stop in any job search should be the alumni career services site at www.gsb.stanford.edu/alumni/career/. Here you will find news of career resources such as the MonsterTrak online jobs database, conferences, networking lunches, and other services like last spring’s
Thinking about a career change?
If you’re thinking of changing careers just now, Uta Kremer has some advice for you: Wait! While now is not the ideal time to move, she adds, it may instead be the perfect time to start preparing for a change. “Changing careers is a long process,” she warns. “It can take a few years.”

“Process” is the key word for Kremer, the unofficial fairy jobmother of Stanford MBA students since she joined the Career Management Center in 1981. Kremer sees that process as a series of steps to begin while you’re still employed.

The first step is a rigorous self-assessment in which you identify your skills, values, and interests. As you examine yourself, read about the industry you’re aiming for. Ask yourself: Do my interests really mesh with it? Am I willing to take a pay cut—or even yourself: Do my interests really mesh with what I want to do for a living? Do I want to make the kind of difference I’ll be making in the world? Do I want to work long hours; any or all will help build your credibility with a new employer.

And don’t forget to have a framework, she says. Maybe it’s to make one phone call a day, maybe only one a week. “When you’re out of a job, it catapults you into a new one. But when you’re in a job search you need structure to keep pursuing your goal,” Kremer says. She suggests enlisting a buddy, perhaps a spouse, to keep you on target.

Kremer has advised more career changes than she can count. She recalls one alumnus who wanted to go into investment management, a field in which he had no experience whatsoever. “He decided he really wanted to do this,” Kremer says. “He bought a car for $1, he had no furniture, and he told prospective employers, ‘Take me on for a year. You won’t have to pay anything; just let me shadow you.’” The happy outcome for this alum: He proved himself during his year of penury and now runs his own investment firm.

Another successful career change involved a banker who wanted to produce movies. He found an established director, offered his financial services for free, learned his new profession, and is now a full-time producer with a half-dozen movies on his resume. And still another, aiming for the other side of the camera, gave up a secure job and a salary to move to Los Angeles and become an actor. He took menial jobs and eventually landed a few small roles, but finally decided he’d like to make another career change and return to the mainstream.

“You see, it can be done,” Kremer says. “We used to say people have three careers over a lifetime. Now it’s not unusual to have five or six. It’s never too early to start planning for the next one.”

My Resume, My Best Marketing Tool

IN JUNE 2001, I was rudely awakened to a new, unsympathetic job market. The startup I worked for ran out of money, and I found myself turning from a dot-com millionaire wannabe into a stressed-out recipient of unemployment checks.

I was not alone. Silicon Valley had been hit harder than most regions, and I was not optimistic about my chances of finding new employment quickly. There simply were too many people with similar skills and experience competing for too few jobs.

Fortunately, I realized that my employment picture was similar to many marketing challenges I had dealt with before. The problem is the same: to build a market-leading position with products that are at parity to those of the competition. The solution is to achieve differentiation.

Did I just say “differentiation”? I knew this concept well from my years of working as a marketer for Procter & Gamble. Drawing on that experience, I systematically applied marketing strategy to the task of writing my resume. Within four weeks, I received six callbacks and interviews with five different companies. I eventually accepted an offer from an Internet company in Mountain View. I have since been asked how I got such quick results.

First, using what I learned in marketing, I identified my target customers and their needs. My targets were the gatekeepers who decided, sometimes in seconds, whether to pass on my resume or toss it. They were HR managers, administrative assistants—even scanning machines. Machines? Rather than dismiss them, I gave them a human dimension; I asked myself how I would program them to perform their job.

Whoever they are, gatekeepers need information that is easy to find. For example, most companies today don’t care what your career objectives are. They want to know what you can do for them, not what they will do for you. Instead of taking up the most valuable real estate on my resume to list my objectives, I began it with a summary of my skills and experience.

In marketing lingo, I was positioning my product, me. And the more specific I could be in aligning myself with the job I was applying for, the better. By listing the skills I had that matched the requirements in the job description, and even using the same words, I made it easy for the resume reader to determine that I was indeed a viable candidate.

But resumes that merely list your skills fail to show that you are very good at what you do. Providing what my old colleagues at Procter & Gamble would call “convincing reasons to believe” is how I was able to differentiate myself from the hundreds of other candidates competing for the same job. I learned to write every bullet point in every job I ever had as an accomplishment and not merely as a job description. I asked myself: “What was the business problem I was trying to solve? What did I do to solve it?”

This gave hiring managers convincing reasons to believe that if I delivered for my previous employers, I could and would do the same for them.

Finally, I remembered that a successful marketing campaign requires both the right strategy and excellent execution. All the work that you put into identifying the target audience and its needs, presenting yourself as the solution, and supplying convincing reasons to believe may still go to waste if you don’t write every sentence with consideration and care.

During the Internet boom, jobseekers joked that all you had to do to get a job was pass the breath test—if it breathed, hire it. These days it helps to know the principles of marketing to differentiate yourself from thousands of other candidates. I know it helped me.

By Trinh Do, MBA ’92, who now receives a paycheck from VeriSign in Mountain View, Calif., as senior manager for product marketing
Social Mission at the Heart of New For-Profit

A guest lodge under the pines is an unlikely place to find youth rebuilding challenged lives. But two MBAs are making it happen through their unusual business plan.

FOR VISITORS TO YOSEMITE NATIONAL PARK, less than four hours east of San Francisco, Evergreen Lodge is a welcoming destination with cozy wooden cabins wrapped in serenity and the scent of pine. For Nicole Goldsmith, the journey was longer and the arrival, sweeter. The 20-year-old native of Las Vegas first had to mend a chaotic high school career and recover from the devastating death of a loved one. Now, she works at the lodge to earn money to further her studies and build a new life.

Goldsmith and three other young adults in similar transitional stages in their lives were picked to join the 15-strong staff of Evergreen Lodge this summer as part of a unique model of socially responsible entrepreneurship. It is a dream come true for two ’94 MBAs, Lee Zimmerman and Brian Anderluh. With an outdoor industry specialist they recently acquired Evergreen Lodge as what they hope will be the first in a portfolio of properties in Northern California’s great outdoors.

What makes the venture stand out, however, is its social mission—helping young adults, like Goldsmith, get their lives and livelihoods in order after difficult starts. Taking stock of their own careers two years ago, Zimmerman and Anderluh decided to look for a way to marry an entrepreneurial business with a social conscience. They knew from their experience in venture-backed enterprises that the typical startup was not the ideal vehicle for such goals. “With the pressure for financial growth, it’s difficult to champion socially responsible entrepreneurship,” Zimmerman says.

In late 2000, they began talking to Juma Ventures, a nonprofit organization in San Francisco that works with disadvantaged youth and young adults, where Zimmerman had spent a year after Stanford as a consultant. After operating small-scale enterprises for seven years, Juma, cofounded by Sharon Wurtzel, MBA ’91, was seeking partnerships with outside entrepreneurs who could develop and run larger businesses.

Zimmerman and Anderluh’s company, First Light Destinations, germinated from these discussions. The entity has been set up as a for-profit company, but unlike most businesses, in which philanthropy and community service are an afterthought, First Light has built its youth program into its foundation through its partnership with Juma. “There’s a long-term relationship,” Zimmerman says, adding that the nonprofit has two seats on First Light’s seven-member board. “We think there is great power in a partnership with an established nonprofit that brings its expertise to bear.”

As a business proposition, First Light sounds promising enough. It will target destinations where demand for lodging exceeds capacity, acquire mom-and-pop operations that are charming but underdeveloped, expand and improve the facilities, and develop recreational programs for guests, such as guided hikes and fly-fishing trips.

Its prototype, Evergreen Lodge, was purchased for $1.25 million from the husband-and-wife team that ran it for 27 years. It sits on 15 acres but has only 18 cabins, which earned the previous owners a modest, seasonal income. First Light will quadruple the number of cabins as part of a county-approved expansion plan and will keep the lodge running year-round. The new recre-
nal programs will contribute additional revenues of 15 to 20 percent. Profits are projected to exceed $1 million by 2006.

One innovative feature of First Light’s structure is the choice that it gives to financial backers. An individual can invest directly in an equity stake in a First Light property or make a tax-deductible donation to Juma, which it will use to increase its own stake in the venture. Either way, Zimmerman says, backers will receive the gratification of significant social returns in addition to financial returns or tax benefits.

Of course, the social mission does increase First Light’s expenses: It must provide for mentoring and training the Juma youth it hires. “Our investors understand that from the get-go,” Anderluh says. The “direct social costs”—amounting to more than $100,000 annually from next year on—are stated in the financial projections and revealed to prospective investors. “Investors seeking only dollar returns may be put off by these numbers, but we are confident we can attract enough interest from investors who want to be at the cutting edge of developing businesses with an ingrained social mission,” Anderluh adds.

Having secured enough capital to buy Evergreen Lodge last year, First Light is currently raising several million dollars for its expansion plans. Initial backers include individual investors as well as the Roberts Foundation, whose Roberts Enterprise Development Fund, directed by Melinda Tuan, MBA ’97, works closely with Juma.

Within five years, First Light aims to create jobs for more than 40 Juma youth annually. The typical program participant is 18 to 24 years old and may have experienced various challenges in his or her past, including poverty, drug abuse, family instability, and homelessness. Such individuals often are past a crisis but lack the income, family support, or network to achieve their full potential without an extra boost. Applicants are screened by Juma to ensure that they are ready for the experience.

They are paid market rates, which currently start at $7.25 per hour. With below-market-rate board and lodging provided on the premises and recreational opportunities available in the surrounding wilderness, the seven-month stints provide an opportunity for youth to build their savings while expanding their horizons. For every dollar they put aside for school, they qualify for $3 in matching funds from Juma through its Individual Development Account program.

The Evergreen Lodge will employ 10 to 15 Juma program participants next year, up from the present four. Composing about one-third of the total staff, the young people can learn from experienced colleagues. They also spend five hours a week with a full-time counselor who serves as Juma’s attaché at the lodge. Alice Briggs, who plays that role, works with the participants on educational and career plans and skills such as personal relationships and budgeting. Briggs considers this her most satisfying experience in her three years with Juma. “It’s a profound way for me to make a difference in their lives, as well as mine,” she says.

Nicole Goldsmith is one of the young people who have found their way to First Light. She says she had a wayward teen life and a stormy home environment, which contributed to her skipping classes. Then she was shattered by the loss of her grandfather to stomach cancer when she was 16. He was Goldsmith’s main champion in life, and his death, alone in a nursing home, left her feeling lost and betrayed by her family.

Gradually, Goldsmith put her life back in order, completing high school along with a vocational training course in office management. This past summer, she could be found cheerfully handling reservations and checking in visitors at the reception desk at the Evergreen Lodge. She also waitressed in the restaurant and helped with housekeeping. After just a few weeks, she was already referring to her Evergreen Lodge coworkers as family and says she wants to come back next year. She wants eventually to run her own garage and plans to take an auto mechanics course, which her fast-accumulating savings will help pay for. “I’m way excited about that,” she says.

Goldsmith is determined to make these months a turning point, and she is not the only one with something to prove. For the founders of First Light, the coming months and years will test their theory that with progressive investors and the right social service partners, entrepreneurs can build profitable businesses that do good from day one. Zimmerman says, “We intend to prove that this model works and hope to inspire others to try it.”

An individual can invest directly in an equity stake or make a tax-deductible donation.

For more information about Evergreen Lodge, go to www.evergreenlodge.com or email info@evergreenlodge.com.
Illustrations by CRAIG FRAZIER

A Season of Scandal

It just goes from bad to worse. Scandal after scandal unfolds in the heart of corporate America: Management and accountants in cahoots to cook the books. Stock analysts promoting weak companies based on their firms’ desire to secure lucrative underwriting business. Already overpaid executives cashing out huge options packages after running their companies into the ground, leaving their employees and shareholders with the now empty bag.

“CEO resigns under fire; Company faces SEC scrutiny” is the standing headline du jour; just insert new names and faces.

Securities and Exchange Commission investigations are multiplying against companies accused of overly aggressive “creative accounting.” Earnings restatements, once the penultimate corporate shame, are becoming distressingly common: 270 restatements last year, compared with an average 49 per year from 1990 through 1997. Congressional hearings, shareholder lawsuits, indictments, and guilty pleas are piling up like trash on pick-up day. The business pages warn of a crisis of capitalism, as investor confidence collapses and the capital markets potentially dry up. If Queen Elizabeth were describing Wall Street, she might proclaim 2002 Anus Horribilis.

Is this the darkest hour in American capitalism?

Far from it. More like, here we go again. Remember the savings and loan scandals of the 1980s? Michael Milken and junk bonds? Or Teapot Dome in the 1920s? There is a long and depressingly familiar history of scandals on Wall Street—it’s largely a matter of same story, different date. Stanford Business School faculty research shows that many of the current problems, from aggressive accounting and managed earnings to analysts’ conflicts of interest, are anything but new. Says Rodrick Kramer, professor of organizational behavior, “Much of this was well known by experts, but now it’s public knowledge.”

Seven Business School professors analyze the conditions that precipitated the latest maelstrom in corporate America.

By ANDREA M. HAMILTON
The big difference is that today what happens on Wall Street also hits Main Street. More than half of American households are invested in the stock market compared with a small fraction of that 20 years ago. The fact is, the humble retail investor wasn’t the only one who got burned in the post-Enron meltdown. Pension funds and other institutional investors were equally fooled by cheating management, acquiescent accountants, and overly rosy research reports. These are professionals who should have known what to look out for.

“There is an element of this that is behavioral,” says Harrison Hong, associate professor of finance. “In the wake of the market’s collapse, people have become much more systematic about scrutinizing the numbers than when the market was booming. These are the same numbers as before. But people were not reading the right things into them,” he says. Whereas CEOs selling millions of shares of stock was considered normal when the market was booming, investors now are viewing such sales as potential signs of corporate malfeasance.

Hong doesn’t buy the claim that the current mess is a complete anomaly. Accountants, CEOs, and analysts were all part of a system that couldn’t police itself. But Hong says investors have to shoulder some of the blame. “We have to ask: Why did people get so excited about these stocks? People were fed numbers they chose to believe, but they should have known conflicts of interest existed.”

In the short term, the market’s decline will take care of the problem, Hong says. “A lot of the incentives of these guys had to do with the market being so hyperinflated and the huge potential payoff involved. If the market is flat, there is no such incentive.”

Longer term, however, he stresses the need for major rethinking of checks and balances and discounts the notion that accountants or others can regulate themselves. In theory, investors would police the numbers themselves, but in reality, they can’t.

“Nobody could understand Enron, not analysts or anyone else. But still they trusted Enron’s management,” he points out. “As long as things are going well, people will believe anything.”

A recurring question—and potential lawsuit—as each new scandal erupts is whether there was outright fraud or merely gross negligence on the part of senior management. Executives are quick to sidestep the blame, claiming either that their underlings misled them or that they assumed everything was OK when their auditors signed off. But in the view of Kramer, that distinction is almost irrelevant going forward. “It doesn’t matter whether it was intentional or not. People are most mad about the consequences,” he says. “Ignorance is no excuse.”

The end result is the same: a loss of trust by investors in the truthfulness of the financial information they receive and in the institutions supposedly in place to prevent such fraud and abuses. Kramer outlines two kinds of trust that are relevant to understanding a way out of the current crisis. One is competence-based: “Should we trust you because we have evidence you are competent?”—an accountant, for example. “The second is intentions-based trust. We look at your motives. We have good reason to think you have benign motives and have our best interest at heart; you will look after us.”

The problem occurs, says Kramer, when we can’t believe the people who should be competent. What happens when a Big Five accounting firm misses a $3.7 billion error?

One reason people have a false sense of security is precisely because we have gatekeeper institutions, like independent auditors. These institutions should detect breaches of trust—but they failed us.”

Rebuilding that trust involves building up effective deterrents by making it costly to cheat. “We can trust the system to deter, if there are deterrents to unethical conduct. Ronald Reagan called it ‘trust but verify.’” But, Kramer adds, it is also costly to have a deterrent system with the necessary monitoring in place to detect breaches. “People thought trust was cost-free. We had accounting firms, and people thought that was enough. But we need monitoring of these firms” and more qualified people at the SEC working on cases, he notes.

Arthur Andersen’s conviction this spring for its role in the Enron debacle was a wake-up call that auditors, ostensibly one of the principal gatekeepers in the American financial system, are also fallible. Whether they actively helped companies “manage earnings” or just looked the other way as company managers cooked their books, or whether their audits, as designed, were unable to detect fraud, accountants no longer can plead ignorance as a defense. “Rest assured, the accounting profession is watching closely,” says former Andersen partner and accounting professor Mary Barth. “This was one of the premier firms that just got blown up.”

But part of the problem with accountants is the element of interpretation that allows two honest people to arrive at different results. Barth likes to say that accounting is both art and science. In the judgment that is inherent in financial reporting lies the art. She sees the challenge in designing a reporting system with reliability: the notion that two people measuring the same thing come up with the same number.

A member of the International Accounting Standards Board, Barth prefers the IASB’s principles-based standards, as opposed to the more rules-based standards used in the United States. She notes that both systems have their strengths, and both ultimately rely on judgment. But a culture has developed in corporate America to push the envelope in interpreting the rules, she says.

In many cases the result is the equivalent of staying—often barely—within the letter of the law while violating the spirit. For precisely this reason, Barth favors a more principles-based approach.

“That’s part of what got us into this problem. Companies looked at the rules and asked, ‘How can we design around them?’ Their attitude was, ‘We’ll live within the rules, but as long as we do, let’s be creative.’ So there’s been lots of creative accounting.”

Ultimately, the reliability of both systems comes down to the same thing: honest people and checks and balances. “Corporate governance, auditors, management—all these things work together. You can’t erase the judgment, and you can’t get rid of the problem by changing the standard,” Barth notes. “But if you’ve got people trying to do the right thing, the question is, how do you put together a system that facilitates communicating the best possible information to shareholders?”

As for the Enrons and WorldComs, “They didn’t follow the rules. In that case, it doesn’t matter what kind of rules you write. If people want to defraud the system, they will.”

Another issue highlighted in the Enron case is the potential conflict between auditing and consulting services. Accounting
professor Karen Nelson examined this issue and found the mere existence of a dual relationship not necessarily suspect. In her study, 95 percent of companies purchased at least some nonaudit services from their auditor. Rather, the relative importance of the company as a client of the accounting firm is more indicative of whether earnings likely were managed. Companies with the least independent auditors, gauged by those who paid the most in consulting fees versus audit fees, were most likely to meet or exceed earnings benchmarks.

“We need to take a look at the regulatory systems in place, to see how to establish a baseline confidence,” Nelson says. “These issues of fraud are not new.”

Despite a clause in the accounting reform law signed in July prohibiting accounting firms from offering a range of consulting services to their audit clients, neither Barth nor Nelson see a complete ban on consulting services as a magic bullet. Nelson advocates full disclosure of auditor-client relationships so investors can judge the quality of financial statements for themselves.

If it came as a shock to many that auditors’ credibility might be suspect, no one should have said the same of Wall Street analysts. Investors are reeling from losses, and in trying to assess who should be held accountable, analysts—those rock stars of the CNBC age—are ready candidates.

Management professor Maureen McNichols has followed analyst behavior for several years and says this should have come as no surprise. Analysts’ appointed task—in theory—is to provide reliable information on the financial health and prospects of companies to investors. But there has long been the suggestion that analysts might be beholden to their investment banking colleagues who garner millions of dollars on underwriting IPOs from companies the analysts cover. McNichols’ research from the 1990s showed a growing pattern of coverage of companies by analysts whose firms were affiliated with the company covered. As the nineties progressed and the pace of IPOs picked up, there was great potential for the Internet and technology sectors in particular to go “out of control.”

“Even though you had a sense you couldn’t trust an analyst affiliated with the bank that underwrote an IPO, many companies were covered only by affiliated analysts or analysts who would like to underwrite subsequent offerings. You couldn’t get an independent view of their prospects,” McNichols says. And as conflicts of interest became more extreme during the Internet bubble years, there was no visible enforcement action. “No one could remember a case of an analyst brought up on charges of preparing a faulty report.”

Enforcement with teeth, such as New York Attorney General Eliot Spitzer’s aggressive investigation that so far yielded a $100 million fine (but no admission of wrongdoing) from Merrill Lynch, may temper the most egregious behavior. But this may not be sufficient to result in unbiased company coverage, particularly of IPOs. As McNichols’ research shows, “Analysts don’t have to cover any company. They can pick those that will earn money for [their] company on the banking side.” Likewise, analysts tend to follow better-performing stocks, while companies that are doing poorly tend to get dropped from coverage with no notice. “Either they’re all saying ‘buy, buy, buy’—or they’re saying nothing at all,” she notes.

"Nobody could understand Enron, not analysts or anyone else. But still they trusted Enron’s management. As long as things are going well, people will believe anything." —HARRISON HONG, Associate Professor of Finance

"Companies looked at the [accounting] rules and asked, ‘How can we design around them?’ “ —MARY BARTH, Atholl McBean Professor of Accounting

“We need to take a look at the regulatory systems in place, to see how to establish a baseline confidence. These issues of fraud are not new.” —KAREN NELSON, Assistant Professor of Accounting

“It was a failure on so many sides. When so many traditionally respected parties stand up for the company, they take comfort from each other’s presence.” —MAUREEN MCNICHOLS, Marriotts S. Eccles Professor of Public and Private Management

“This mess has been fed by tremendous amounts of money; it’s a terrible contaminant.” —GEORGE PARKER, Dean Witter Professor of Finance and Management (Teaching)

“All professions want to ‘self-police.’ The truth of the matter is they are very good at detecting problems but no good at deterring or punishing.” —RODERICK KRAMER, William R. Kimball Professor of Organizational Behavior

“Congress had to pass something. The Democrats need to pick up 10 seats in the House, and they need a national issue that will give them those seats.” —DAVID BRADY, Bowen H. and Janice Arthur McCoy Professor of Political Science and Leadership Values
Going forward, the question of how to ensure quality research remains. At issue is how research is paid for within the firm. Given that the average analyst earns nearly $200,000, while “star” analysts garner seven- and eight-figure salaries, it is a costly operation.

“It’s costly to do good research; how sustainable is that as an activity within an investment bank?” McNichols wonders, noting that research used to be subsidized by trading but that declined through the 1990s. “The issue will be how to get good research if no one is willing to pay for it—without compromising integrity.”

Beyond the analysts, McNichols says, the simultaneous failure of so many safeguards was a huge surprise. “Like the emperor’s clothes, many looked at their colleagues’ actions to assess whether a company was doing as well as it said. The auditors took assurance from the analysts; there was a cloak of legitimacy provided by the banks. It was a failure on so many sides. When so many traditionally respected parties stand up for the company, they take comfort from each other’s presence.”

If analysts are a tempting target for investors’ wrath, the issue of excessive executive compensation, particularly stock options, is equally provocative. In the early 1990s, options were thought to be a useful tool: They would align senior management’s interests with those of the company by tying their compensation to its performance via the stock price. But the system went awry. As awards piled on, so did executives’ personal stake in the share price. With so much money at stake as the market soared through the later 1990s, executives began regarding the stock price as the single most important corporate value and acted accordingly. Bad news had an instant downward effect on stock prices, creating a costly incentive for executives to squelch any negative information or even to fudge the good. It became a vicious circle.

“This mess has been fed by tremendous amounts of money; it’s a terrible contaminant,” worries George Parker, professor of finance and management, who also cites poor corporate board leadership and compromised analysts and auditors.

A fierce battle is being waged over how to account for the cost of options issued to employees, which virtually everyone except companies themselves agrees should be recognized as an expense in the income statement, rather than disclosed in the footnotes. Not only does that inflate the balance sheet, says Barth, but “managers can delude themselves into thinking options don’t cost anything.” If options are in the income statement, they are more clear and present for shareholders to examine and ask questions about, she adds. “People manage what they measure.” But the political opposition from Silicon Valley and the Business Roundtable has been fierce and, so far, successful. Yet a shift is under way. Starting in July, a growing number of companies, led by Coca-Cola, began announcing they would expense options.

What about the second part of the options problem, executives who cash out their options and walk away with millions even as they run the company into the ground? Parker argues that corporate officers should be required to hold their options for up to three years after they leave the company.

On the larger question of rebuilding investor confidence, there is little consensus.

Looking forward, Kramer dismisses the common argument that the issue is not more rules but better enforcement. “That argument is always used, that we just need to enforce the rules we have. Well, we never do. All professions want to ‘self-police.’ The truth of the matter is they are very good at detecting problems but not good at deterring or punishing.”

Barth is hopeful that something good eventually may come out of this awful period. “Many companies have learned a lot from this mess. They watched what happened to companies who play games, not even being dishonest but just pushing the rules. The price management pays in the marketplace when that comes out is severe.”

The other potential benefit may be a humbling of attitudes in corporate America. During the boom years, when the U.S. market was the envy of the world, “there was no room to argue for doing things differently,” says Barth. “Now, in the wake of Enron, there is room for open-mindedness, admitting that there may just be a better way to do things.”

Political scientist David Brady takes a more cynical view of what might force the system to clean up. He sees the accounting reform law signed in July as a matter of political expediency. “Congress had to pass something. The Democrats need to pick up 10 seats in the House, and they need a national issue that will give them those seats.” He allows that such a bill might go some way toward restoring investor confidence, but he doesn’t put great store in Congress to clean up corporate America’s shaky bookkeeping.

“If you want to see really creative accounting, just look at the federal budget,” Brady says. “The notion that these guys who write that are going to somehow solve the problem is really stretching credibility.”
Executive Education

POWERFUL IDEAS, INNOVATIVE PRACTICE, LASTING VALUE

Stanford’s dynamic, highly interactive executive programs offer you the latest methods for analyzing the daily issues you face, key insights into leading-edge management thinking, and a practical, balanced set of frameworks to help you think strategically about your business. By working with the world’s foremost business faculty and exploring ideas with a global network of senior executives, you’ll gain unparalleled insights for creating sustainable competitive advantage and powerful inspiration for initiating change.

General Management Programs

Stanford Executive Program
June 22 – August 5, 2003

Executive Program for Growing Companies
February 16 – 28, 2003, and July 20 – August 1, 2003

Stanford – N.U.S. Executive Program in International Management (in Singapore)
July 27 – August 15, 2003

Executive Management Program: Gaining New Perspectives
(at Stanford Sierra Conference Center)
September 14 – 20, 2003

Financial Management

Credit Risk Modeling for Financial Institutions
March 30 – April 4, 2003

Finance and Accounting for the Non-Financial Executive
May 4 – 9, 2003, and November 9 – 14, 2003

Financial Management Program
July 6 – 18, 2003

Leadership and Strategy

Managing Teams for Innovation and Success
February 2 – 7, 2003

Leading Change and Organizational Renewal
March 9 – 14, 2003 (at Harvard), and
November 2 – 7, 2003 (at Stanford)

Executive Program in Strategy and Organization
August 3 – 15, 2003

Executive Program in Leadership: The Effective Use of Power
July 13 – 18, 2003

Mergers and Acquisitions
August 17 – 22, 2003

Human Resource Executive Program:
Leveraging Human Resources for Competitive Advantage
September 14 – 19, 2003

Information Strategy for Competitive Advantage
October 5 – 10, 2003

Marketing

Marketing Management Program
August 3 – 15, 2003

Negotiation

Advanced Negotiation Program
March 30 – April 4, 2003

Negotiation and Influence Strategies
April 6 – 11, 2003, and October 19 – 24, 2003

Technology and Business

Strategic Uses of Information Technology
April 27 – May 2, 2003

Managing Your Supply Chain for Global Competitiveness
August 24 – 29, 2003

For information or applications, please contact: ANGEL DODSON

Phone: 650.723.3341  Fax: 650.723.3950  Email: executive_education@gsb.stanford.edu

OFFICE OF EXECUTIVE EDUCATION, STANFORD GRADUATE SCHOOL OF BUSINESS • STANFORD UNIVERSITY, STANFORD, CA 94305-5015

Subject to change. For the latest information, go to our Web site at www.gsb.stanford.edu/exed
Organizations, especially for-profit organizations, now play a curiously dual role in promoting the unfettered acceleration of technology. They are technology’s most powerful driver and also its hogtied prisoner. That combination generates more and more acceleration, with potentially disastrous downside effects.

The resultant maelstrom of technological products and processes is beginning to look like a runaway locomotive, or worse—more like a whole horde of runaway locomotives hurtling ahead along multidirectional, multidimensional, ever-changing networks of tangled tracks. Now and again one runs out of fuel, but by then a host of newcomers has already begun to roll. And most of us, both individually and organizationally, as well as the media, seem so caught up in this technological tsunami that we mentally push aside any small pro-dromes of impending, down-the-road dangers. Science and technology (s/t) have hastened globalization, shortened many organizations’ life spans, and revolutionized the notion of what constitutes an individual’s career. Yet, even as it drives organizations to distraction, s/t also empowers them. The potent “military-industrial complex” that President Eisenhower warned against in 1960 has given way to the even more potent “technology-industrial” complex of the 21st century.

By Professor Harold J. Leavitt
Technology and organizations have always been important to one another, but until recently, organizational change was at least as much a matter of managerial choice as of pressing necessity imposed by science/technology. And the serious entry of organizational money onto the s/r scene has caused a shakeup in s/r’s internal culture. Technologists, traditionally lower in the pecking order than “real” scientists, are now approaching status parity. Steve Jobs and Bill Gates are almost as much cultural emperors as Nobel laureates are cultural aristocrats.

Technology’s rising status also signals a shift in the thought-to-action ratio. Science has traditionally been mostly about thinking. But it is technology that carries the ball from thinking to doing, from learning to building, from solving the problem to implementing its solution. Ideas, in and of themselves, have certainly triggered revolutions, but technology builds the cars, makes the pills, and puts together the navigational systems. From the printing press to the light bulb to time and motion study to the PC, cheap, transferable technology has always been a major propellant of societal change.

Pure, unadulterated human curiosity was the initial motivator for much of both science and technology. Scientists and technologists, by training and by inclination, were intrinsically driven to search and explore. Their work provided its own reward. They liked money too, but gold was not the prime motivator. Indeed, the whole notion of grubbing for money was antithetical to the ethos of science. Yet perhaps it should have been obvious that greed would eventually become a camp follower of exploding technology. The money magnet attracts us all, but its pull is especially strong on financial types, marketers, and MBAs. Even Silicon Valley’s fabled young crusaders have been infiltrated by people with more “pragmatic” priorities. We are thus becoming doubly entrapped. Our limitless curiosity has coupled with our equally limitless avarice.

The effect of both has been to push technology ahead of science, while also blurring the distinction between the two. Would any private organization today build the equivalent of the old science-driven Bell Labs? That institution had a five-year moat of safety from the incursions of AT&T’s marketers and finance folks. Yet that magnificent scientific resource gave way, more and more, to “directed” research, largely a euphemism (as scientists complained in Bell Labs’ declining days) for the demand that they devote themselves to designing Mickey Mouse telephones. While that shift at Bell and other corporate labs began somewhat earlier, the Japanese manufacturing challenge of the 1980s sped up the process. So did the 1980 Bayh-Dole Act, which streamlined and encouraged technology transfer from federally funded university research to industry.

All of which brings us to these questions: Where are some of the danger spots? What else can and should we do about technology’s surging speed and spread? What shall we worry about? Here are a few items:

- Until now, when new technology was blamed for some real or imagined downstream trouble, it got itself off the hook by offering a standard medication: large doses of even newer technology. Are high-powered cars on overcrowded highways killing too many of us? Invent seat belts and air bags! Are “rogue” states threatening us with nuclear missiles? Develop Star Wars antimissile technology!

That nostrum is still being peddled. For example, many private companies, long hostile to efforts to control the greenhouse gases that their factories emit, have recently reversed their position. They now see an opportunity for profit by developing new technologies to control the negative impact of their own earlier technologies. Such technological cures for technologically generated ills are no longer the panacea they once were. s/r must live in the interconnected global village it has helped create. Deep social and political anxieties are growing around s/r’s perimeter, and many are becoming technology-resistant. The “digital divide” between the have and the have-not segments of the world may be growing, but the have-nots have enough technology to be quite aware of how much more the have has. Indeed, several have-nots already have enough technical know-how to build horrendous nuclear and chemical weapons. That great segment of humanity will not stand passively by while our s/r rushes blithely onward. They will want more, and they may have the population power to get it.

- Consider some recent projections by knowledgeable s/r people about what lies ahead: a now widely cited article in Wired by s/r insider Bill Joy, chief scientist at Sun Microsystems, and a 1999 book by Ray Kurzweil on soon-to-arrive “spiritual machines.” They assert—and they should know (or should they?)—that machines will soon be able to do almost everything humans can, but more and better. They may be overstating both the case and the timetable, but can we blandly discount their informed judgments?

- As s/r continues to proliferate and accelerate, the interactions among its parts will become more and more complex, perhaps exponentially. So what have been called “normal accidents”—like the Challenger, Bhopal, and Chernobyl disasters—will become more probable and more frequent.

- More “control” of s/r is being taken by a shrinking number of enlarging organizations. A century ago we tried, with only moderate success, to cope with excessive concentrations of economic power via antitrust laws and such. Can we handle increasing concentrations of s/r power with the equivalents of antitrust?

- The sweeping tide of technology threatens the independence of science’s traditional home, the university. As s/r accelerates, that academic birthing ground requires more resources. Corporations are willing to contribute, but almost always in exchange for partial control over universities’ research programs. A more intimate relationship is bound to have negative impact on the autonomy and, of course, the tenure of academic scientists and engineers.

It’s appropriate to end this set of worries on a more positive note: Somehow, over the years, we humans have managed to survive most technological dangers, although sometimes—as in the Cuban Missile Crisis—only by a hair’s breadth. Maybe, if we use our collective heads, we can continue to muddle through, despite s/r’s acceleration.

When I showed an early draft of this piece to a few technologists, executives, and academics, some wanted to debate the issues, others raised further problems, but all asked the same what-to-do-about-it question: “Simply asserting that technology’s acceleration is inevitable doesn’t really help,” some said. “It just scares people.” “Where,” as one colleague put it, “are the ‘deliverables’ in your essay? If the s/r flood is about to wash us away, what do you recommend that we do about it?” I admit to feeling a little irritated by that request. Isn’t identifying a problem a first step toward its solution? Our world really is in for changes that will rock our souls. But I can think of only one
“Technological cures for technologically generated ills are no longer the panacea they once were.”

modest “deliverable” that might help dampen the shock: Let’s learn to look—with a very wide-angle lens—farther ahead and faster, at the possible second- and third-order effects of new technologies, before those down-the-road effects clobber us. We haven’t, in the past, done a very good job of such forecasting. Consider the Internet. It opens vast new worlds cheaply and fast. Hooray! Then porn becomes the biggest business on it, our privacy is violated, and hackers endanger our personal and even our national security. Were those effects impossible to predict? And even if we had foreseen that surge of porn, could we have prevented it? Probably not, but couldn’t we—and wouldn’t we—have been able, from the start, to build in some more sensible ways of dealing with it?

To do a better job we need dialogue, and not just dialogue among scientists and technologists. When Bell Labs, decades ago, was designing pay telephones, they would sometimes assign an “enemy” technical team to test the physical limits of the proposed new product. The team’s task was to invent ways to gum up, break, or steal from those tentative designs. A sensible idea! They didn’t, however, also put nontechnical teams to work trying to project the possible longer-term social impact of alternative designs. Maybe that would have been a good idea, too.

Perhaps, as the noise level increases, we are even beginning to do a little more of such forward thinking. On June 26, 2000, a complete map of the human genome was announced. Now we await the transition from this achievement to its forthcoming implementation, the shift from mostly science to mostly technology.

All during that memorable day, television’s talking heads went on at length about three issues: First, they touted the biotech wonders that lie ahead: a cure for Alzheimer’s, individually tailored therapies for cancer patients, etc. Second, the airwaves were full of the rather tense debate between the publicly sponsored genome project and a fast-moving, privately held biotech company. Would this new knowledge, consistent with the cultural tradition of s/r, become public property, open freely to all? Or would that technology-yet-to-come, with all its enormous implications, be owned by private, for-profit organizations? Third, on that very same day, questions of privacy, religion, and ethics began to be aired, and since then they have been aired more and more loudly. “Should we clone human beings?” “Is human embryonic stem cell research moral?”

One hopes the sound and fury around such issues signify that we are learning, even in the realm of s/r, that there’s no such thing as a free lunch. Or does it only mean that genetic tech is different from most other forms of s/r because it immediately and deeply touches some of our most sensitive spots—our religions, our polities, and our fears of disease and death?

That all those issues are being debated vigorously sends a positive but inchoate signal. s/r has become far too important to be left to scientists/technologists, politicians, and business executives. We may need, as one colleague suggested, something more formal. He pushed the look-ahead idea further, proposing that the time has now come for government to create one or more national—perhaps international—commissions to consider the likely consequences of new technologies—commissions composed of academic and industrial scientists and technologists, plus social scientists, humanists, ethicists, theologians, business executives, and others. Their charge would be, first, to identify—as early in the developmental process as possible—the most likely social, educational, psychological, moral, and other probable fallouts of emerging technologies, and, second, to propose ways of coping with them.

Even those questions, however, do not lie at the heart of the matter, nor do questions of have vs. have-nots. The heart of the matter, we suggest, is the process in which s/r has been caught up, a process that is responsible for its headlong, onward acceleration. If one had to place a bet on the future of, for example, stem cell research, my bet would be—despite our president’s effort to tread a compromising tightrope, and despite many other obstacles—that it will barrel ahead. Religious, political, and other pressures may temporarily slow it down, but do any of us believe—in this diverse world—that we can really keep that train from picking up steam?

Many may dismiss this essay as just another plaint that the sky is falling. Those folks may be right and, indeed, one hopes they are. But it would be ironic, wouldn’t it, if human-kind were to get itself into serious trouble—not because it can’t stop making war, nor because it can’t stop making love, nor because of its wildly irrational emotionality, nor even out of sheer stupidity—as a result of an attribute we prize and hold to be morally and intellectually good, our insatiable curiosity. Has that great quality now gone astray, shacking up with the black sheep of the human family, greed?

Perhaps those optimists can help reassure us worrywarts by focusing their creative curiosity on points farther down the road. Perhaps real scientists and technologists might even join forces with social scientists and technologists to think, early on, about likely longer-term consequences of s/r’s next great idea. That could conceivably help us avoid a few of the horrendous traps that must surely be waiting out there.

There is no facile, happy ending to this essay. The conjunction of human curiosity, a burgeoning library of accumulated knowledge, s/r’s still more or less democratic, open culture, and the competitive rapacity of free market organizations, taken ensemble, appear certain to fuel science and technology’s continued rolling acceleration. We humans are the responsible parties. We could not keep ourselves from creating our ever-more-frenetic world, nor are we likely to prevent ourselves from rushing onward to expand and extend it. Is it really possible that we will go on until we have painted ourselves out of the picture? Or, by using our innate curiosity, might we identify more sensible ways to cope with s/r’s great leaps forward? And might we design, and occasionally apply, appropriate brakes? Mae West once opined that too much of a good thing is simply wonderful. Not always!

Harold J. Leavitt is the Walter Kenneth Kilpatrick Professor of Organizational Behavior and Psychology, Emeritus.
S
even new faculty members
join the Business School this fall, leading to a net increase of 11 over the past three years. Among the arrivals in 2002 are Dale Miller, professor of organizational behavior, who will be codirector of the School’s new Center for Social Innovation, and Lawrence Wein, professor of operations, information, and technology, whose recent work has studied the implications of U.S. government policy for responding to a potential germ warfare attack. (See story on page 26.)

Miller, a social psychologist, is the Morgridge Professor of Organizational Behavior. He studies intergroup and interpersonal relations. This includes the origins and consequences of people’s false beliefs about the opinions, feelings, and practices of their peers; the effects of the belief that self-interest influences individual and group behavior; how interpretations of disagreements differ when people belong to different cultural groups; and when individuals feel they have license to take actions or express opinions with negative consequences for others.

The Center for Social Innovation (CSI), which is codirected by organizational behavior faculty member Jim Phillips, was created to promote solutions for social problems through teaching, research, and outreach. It will support an annual research fellows program to encourage leading researchers to focus on a specific topic. There are also plans to launch early next year a journal including both academic research and the ideas of practitioners working in the field of social innovation.

Wein, whose work in operations management ranges from semiconductors to studies involving HIV infection and cancer, designs mathematical models for focusing on a variety of issues such as factory schedules, multidrug therapies, and methods for creating organ transplant waiting lists.

In addition, the School welcomes five other tenure-line faculty plus nearly two dozen visiting faculty and lecturers. The new assistant professors are: Phillip Leslie (strategic management), an empirical economist working mostly in industrial organization; Brian Lowery (organizational behavior), whose research involves the role that automatic processes play in determining the contents of thoughts and behavior in areas such as stereotyping and prejudice; Ulrike Malmendier (finance), whose research is in behavioral economics and finance; Martin Ruef (strategic management), who studies the rise of new organizational forms, how legitimacy affects organizational survival, and the creation of new organizations by entrepreneurs; and Alan Sorenson (strategic management), an empirical economist who concentrates on problems of industrial organization and focuses on pricing issues.

Business School professor Joanne Martin is one of four recipients of this year’s Graduate School of Arts and Sciences Centennial Medal at Harvard University. The award recognizes contributions to society that have emerged from the recipients’ graduate education at Harvard. The Fred H. Merrill Professor of Organizational Behavior was recognized for her research and leadership in the academic field of organizational behavior. The medal was created in 1989 on the 100th anniversary of the founding of Harvard’s graduate school and is presented each year to two to four alumni/ae selected from nominations solicited from within the Harvard community.

Peter DeMarzo has been promoted to professor of finance, and three associate professors have been awarded tenure. In addition, seven junior faculty were promoted from assistant to associate professor.

On the faculty since 2000, DeMarzo’s academic research interests include security design, contract theory, corporate financial policy, asymmetric information and trade, and general equilibrium theory.

Timothy Groseclose, associate professor of political economy and the McNamara Faculty Fellow for the current academic year; Harrison Hong, associate professor of finance; and Ron Kasznik, associate professor of accounting, were awarded tenure.

Lanier Benkard, Yossi Feinberg, Peter Henry, Paul Oyer, and Romain Wacziarg were promoted to associate professor of economics; Ming Huang to associate professor of finance; and Larissa Tiedens to associate professor of organizational behavior. Benkard and Sonya Grier, assistant professor of marketing, are the Fletcher Jones Faculty Scholars for 2002–03.

The Business School has established a series of faculty scholar and faculty fellow awards to recognize exceptional faculty.

Among the faculty given recognition this academic year are Darrell Duffie, the Miller Professor of Finance, named the Spence Faculty Fellow for the third year; Sunil Kumar, associate professor of operations, information, and technology, named the Rosenberg Faculty Scholar for the second successive year; Andrzej Skrzypacz, assistant professor
of economics, named the MBA of 1969 Faculty Scholar; and Robert Wilson, the Adams Distinguished Professor of Management, named the Jaedicke Faculty Fellow.

Andrew Grove was named the Class of 1973 Lecturer in entrepreneurship, and Jeffrey Moore is the Class of 1978 Lecturer.

Five professors are gsb Trust Faculty Fellows for the current year: Jonathan Bendor, George Foster, Michael Harrison, Roderick Kramer, and Maureen McNichols.

Whether declaring that “a little paranoia may help” a company’s performance or arguing about marketing organizational structures (“If it’s everybody’s job, it’s nobody’s responsibility”), David Montgomery has been a pioneer in marketing research since the 1960s.

“Dave has always demonstrated an abiding interest in real problems of real marketing managers. His research has shown both relevance and rigor,” Professor Marian Moore of the University of Virginia said in August during the American Marketing Association Educator’s Conference, where Montgomery was presented with the prestigious Mahajan Award.

Montgomery, the Sebastian S. Kresge Professor of Marketing Strategy, Emeritus, is the third researcher to be honored for lifetime contributions. Each recipient has had a Business School connection—including David Aaker, PhD ’70, of the University of California, Berkeley’s Haas School, who is the father of current Business School marketing faculty member Jennifer Aaker; and George Day of the Wharton School, who taught at the Stanford Graduate School of Business for more than five years.

Montgomery’s prize-winning 1988 paper “First Mover Advantages” concluded that firms don’t choose to be pioneers; rather, “pioneering opportunities arise endogenously … [gaining] first mover opportunities through a combination of proficiency and luck.” A 1996 paper, “Perceiving Competitive Reactions: The Value of Accuracy (and Paranoia),” found that performance is enhanced for teams that are paranoid—those that perceive their competitors as reacting to them when, in fact, they are not. But missing reactions was found to badly hurt a firm.

David Brady has been named to the National Historical Publications and Records Commission, to serve through 2004. The federal commission supports activities to preserve, publish, and encourage the use of documentary sources relating to the history of the United States. The 15-member body is chaired by the Archivist of the United States and composed of representatives of the three branches of the federal government and of professional associations of archivists, historians, documentary editors, and record administrators. Brady is one of the two presidential appointees to the body. The commission is authorized to receive up to $10 million annually to be disbursed through grants.

Brady is the Business School’s Bowen H. and Janice Arthur McCoy Professor of Political Science and Leadership Values.

Details about the commission and its grants are available at www.archives.gov/nhprc_and_other_grants/index.html.
Bioterror Requires New Vaccination Policy

A paper by three academic researchers is being credited with prompting the U.S. government to propose a stepped-up, wide-scale response that would substantially reduce deaths in the event of a bioterrorist attack on a U.S. city.

The government initially proposed a process that called for isolating those infected by the disease and immunizing only those with whom the victims had been in contact. In a case where 1,000 urban Americans were infected with a disease such as smallpox, scholars calculated, the process could result in 4,680 deaths and take a full year to extinguish the outbreak.

A better plan, they said, would be to use speedy mass vaccinations after an attack coupled with advance preparations, which would reduce the death toll in their base case to 560 deaths and halt an outbreak in a much shorter time period. The speedier approach became government policy in September, when a new federal emergency response plan was released.

“The new policy not only saves lives, it minimizes the impact on the national psyche, because many people would otherwise self-quarantine, panic, flee, or storm hospitals demanding vaccinations. The financial costs of such a shutdown would be immense,” says Lawrence Wein, professor of operations, information, and technology and one of three authors of the study, which was published in the August 6 issue of the Proceedings of the National Academy of Sciences.

Wein’s expertise is in the complex logistics of manufacturing, but he also has worked in medical areas such as treatments for HIV, cancer, and Alzheimer’s disease. His coauthors in the smallpox study are Edward Kaplan of the Yale School of Management and David Craft, a doctoral student at MIT. The key feature of their work is to incorporate the timeliness of the response in addition to the spreading pattern of the disease.

The government’s former policy has worked well for containment of natural disease spread in the past, Wein said. “It was motivated by the ‘surveillance containment’ policy that was used to eradicate smallpox worldwide several decades ago. The people who did this are real heroes; this was one of the great health care accomplishments of the past century.”

But applying this policy in a present-day bioterror attack is problematic, Wein says. “The U.S. population lacks herd immunity (meaning it is highly susceptible to smallpox because it has never had it and vaccinations ceased decades ago); tracing human contacts is very difficult in a large city; the smallpox strain is likely to be one that the former Soviet Union weaponized and so will be much more infectious than most historical natural outbreaks; and the United States does not have the leisure of waiting the many months it takes for vaccination to eradicate the disease.”

Embedded in the past response plan is a “race to trace” an infected person, he said. A person infected with the disease would need to self-report to a medical facility and then be isolated and interviewed. On average, people can remember 50 others they may have contacted since being exposed to the illness. Those 50-plus people need to be traced, contacted, and vaccinated.

The problem with this traditional response is time. If a person who is exposed rides the “A” train at 5:15, tracing all those who have been in contact with him is time consuming, if not impossible. And a person is only susceptible to the benefits of the vaccine within about three days of exposure.
The authors are able to calculate the cost in disease spread and added deaths from the lost timeliness by using “queueing theory,” an operations theory long favored by fast-food chains to keep their customers coming back. Queueing theory shows that the more people there are in line for tracing and vaccination, the more difficult it becomes to win the race to trace. “It is the first paper, to our knowledge, that incorporates queueing and operations aspects into a model of an epidemic,” Wein says. “And the repercussions of waiting in a long line are more serious than at McDonald’s.”

Federal officials announced in late September that they were changing the guidelines to reflect the scholars’ recommendations. Meanwhile, the three coauthors are working on other bioterror issues and are discussing pre-attack logistics with public health officials. “We want to make the response as smooth as voting,” Wein said, “so if an attack actually happens, everyone has already been educated and signed consent forms for vaccination. We will know who is contraindicated, and it will just be a matter of people getting in line at their local high school or hospital for treatment.” — LISA EUNSON

“The Slippery Slope of Demographic Marketing”

Predicting consumer response to marketing efforts is not just a numbers game. With growing diversity in the U.S., population and an economy that spans cultural and national borders, advertising is often segmented to target specific minority demographics. But to define a target group simply by percentage of population or other statistics such as income or education level mistakenly ignores consumers’ perception of their identity and status in the larger social context. And it is that perception of social status that can affect how an individual responds to images in an ad campaign.

“Our identity and how you are going to respond to a targeted ad is not based upon how some marketer defines you. Identity is pliable and flexible and can vary according to context,” says assistant professor of marketing Sonya Grier. Grier’s recent work delves into the social complexities of human interrelationships will not tell the story. Marketing, when a trait is more salient, people respond more to its targeting. For example, ethnic minority consumers have been found to respond more favorably to ads targeted to their ethnicity than to a pitch aimed at ethnic majority consumers.

Grier went to South Africa to look at consumer response to targeted ads in a context that challenges traditional research done in Western cultures, where groups in minority by percentage of population are typically also social, economic, and political minorities. With coauthor Rohit Deshpande of Harvard Business School, she writes, “South Africa represents a microcosm of major global trends.” She considered the local context by recruiting half of her subjects from one city with a black majority, and the other half from another city where there are more whites than blacks. Using in-home interviews of 176 English-speaking adult women, black and white, she measured spontaneous self-concept, ethnic identification, importance of race, and perceptions of relative social status by asking subjective questions. She then documented each subject’s response to the trustworthiness of advertising and her attitude toward the marketed brand using two ad campaigns that were identical except for the race of the people portrayed in the photographs.

Results of the experiment found that ethnicity was more salient for members of each city’s ethnic minority, as in prior research. However, results also showed that including a consideration of social status added to the explanatory value of distinctiveness. “It helped to understand more of what was going on than just thinking about numbers alone,” Grier explains.

It was not just the individual’s sense of her own status that affected her response to the ad images; perceptions of others’ status mattered as well. “Even higher-status people who see a larger gap between their group status and another group status had a stronger identity,” Grier says. “People can have a higher psychological consciousness of group identity, whether they are in a minority or a majority, based upon their perceptions of status and its dynamics in the marketplace.”

Status is not the only social dimension that can affect the way individuals respond to targeted marketing efforts. Grier also is examining how people respond to ads targeted to others depending upon how much interaction they have with members of ethnic groups other than their own. Her current project uses “contact” theory, which predicts that increasing real, equal-status contact between individuals will diminish the occurrence of prejudice. “Results thus far suggest that the most influence on consumer attitudes toward ads targeted to other groups comes from people who are their friends, not who they work with or who their neighbors are,” she notes.

Grier, who teaches the course Social and Nonprofit Marketing, recognizes that the impact of marketing goes beyond what products people buy to encompass social dynamics. To look at economics without looking at the complexities of human interrelationship will not tell the whole story. Grier reminds us, “Business is in society.” — LISA EUNSON

“How you respond to a targeted ad is not based on how some marketer defines you. Identity is pliable and flexible and can vary according to context.

The Politics Behind Gas Price Spikes

Ah, sweet summer time: Long, balmy evenings and kids playing in the pool. And spikes in the price of gas. Although such price jumps may have a modest impact on an overall household budget, they get our attention because we buy gas on average twice a week, and buy more gas in the summer for vacation travel. Crude oil, refining, and shipping costs affect the price of gas. Pump rates also vary by short-term factors such as refinery and pipeline outages and state and local regulations on shipping and zoning.

“Gasoline prices are sharply etched into consumers’ minds, more so than possibly any other consumer product,” according to economist Jeremy Bulow. When gas prices spiked in the Midwest in the spring of 2000, with the presidential election in full swing and political fingers pointing at either the potential for market collusion or the lack of market incentives as the culprits, Congress demanded an investigation by the Federal Trade Commission. The FTC report, a compromise between the lawyers and economists on the commission, did not tell the whole story. “The economists felt it was an inaccurate portrayal of what had happened, so it prompted us to put out a paper,” says Bulow, who was chief economist on the FTC during the Clinton administration.

Bulow, the Richard A. Stepp Professor of Economics, with Jeffrey Fischer, Jay Creswell Jr., and Christopher Taylor, economist colleagues from the FTC, concluded that the oil companies responded as quickly as was logistically possible to correct this price spike. This Midwest event was caused by a combination of complex factors, many of which will inevitably cause future rate hikes. “Refiners are producing at a very high percentage of capacity these days. When there is a supply disruption, we will have a price spike,” Bulow says. There is no excess fuel production from which to draw. Complicating the supply side are the “boutique fuel” regulations concerning fuel additives, which vary by region. The gasoline in Chicago is different from the gasoline in Detroit, and even from the gasoline in the suburbs of Chicago. It takes two weeks to refine a specific formulation of gasoline and several more weeks to ship it to a specific market. If the entire country were using the same kind of gasoline, it would speed the availability of fuel to any area facing a shortage and keep prices more level.

In a recent interview, Bulow pointed out that last year the American Petroleum Institute and the American Lung Association made a joint proposal to change the reformulated gas rules in the United States. “They made the point that with the changes in gasoline technology, we could produce an environmentally superior gasoline without any additives like ethanol. The ethanol lobby managed to quickly defeat this proposal.” Ethanol is made from corn, but Bulow does not think the price of corn is much affected by the production of ethanol. “The people who have ethanol processing facilities, like Archer Daniels Midland, are the primary beneficiaries of these rules; Congress has recently exacerbated this by passing rules to triple the amount of ethanol in gasoline,” Bulow said.

Another factor in gasoline pricing is local and regional regulations. For example, in California, which has its own specific gas formulation, when there is a refinery outage, gasoline can be shipped in from another U.S. location only in something called a “Jones Act Vessel,” a boat built in, crewed by, and flying under the flag of the United States. This means it costs as much to ship fuel from Louisiana to California as from Norway to California. The price of gas in the San Francisco area is significantly higher than in Los Angeles because of the price of real estate and limits on certain local permits. Bulow says: “In L.A., gas stations are attached to profitable convenience stores, so gasoline can become a loss leader. In San Francisco, you can only get a permit for having a service station, so in order to sell gasoline you also need to have a mechanic on duty during all business hours and some service facilities.”

Bulow notes that the consequence of such regulations almost always will be higher gasoline prices. “It’s a reasonable choice to make, but we have to understand we are making that choice. The thing that aggravates me more is this business about the boutique fuels. If it is environmentally better to adopt something like the API/ALA proposal, the fact that the political process is preventing that bothers me.” —Lisa Eunson
Double Orders Mislead Manufacturers

In April 2001, Cisco Systems wrote off $2.2 billion of excess inventory and cut 8,500 workers, but it wasn’t enough to keep the Internet infrastructure giant from turning in a dismal third-quarter report. After making $800 million in the first quarter, the San Jose, Calif.-based company had a $2.7 billion loss—a shocking turnaround for one of the world’s fastest-growing corporations. What happened? In the words of Business Week, “Cisco had flattened the corporate pyramid, outsourced capital-intensive manufacturing, and forged strategic alliances with suppliers that were supposed to eliminate inventory almost entirely. Sophisticated information systems gave its managers real-time data, allowing them to detect the slightest change in current market conditions and to forecast with precision.” But the highly hyped systems failed to account for frustrated customers and resellers, who, tired of long waits for products, began to order from multiple distributors. Cisco began to stockpile components, added workers, and helped contract manufacturers buy more parts. The backlog evaporated as customers canceled duplicate orders, and new orders failed to materialize.

Although many factors impacted Cisco’s bottom line, its losses would have been much smaller if management had recognized the double orders and adjusted its sales forecast accordingly, explains Erica Plambeck, assistant professor of operations, information, and technology. “Cisco failed to account for duplicates in the order backlog and therefore, although the tech economy had begun to slow down, Cisco anticipated continued high demand for its products,” she says.

An examination of what happens when management fails to correctly estimate demand for a product or customers’ sensitivity to delay is the crux of a recent paper by Plambeck and coauthor Mor Armony, assistant professor at Stern School of Business, New York University. The researchers show how these factors can cause companies to build too much capacity or not enough. “Cisco is not the only company with difficulties in estimating demand because of duplicate orders,” Plambeck says. “Intel and other semiconductor companies believe that data on bookings is irrelevant because it is too difficult to distinguish between duplicate orders and true demand.”

Yet it is important to account for double orders and the reasons for them, she says. “Otherwise, by counting duplicate orders as true demand, you overestimate the demand rate, and by counting the cancellations of duplicate orders as lost sales, you overestimate customers’ sensitivity to delay, and then you wind up with excess capacity.”

Plambeck says she became interested in the subject of double ordering after reading about Cisco’s problems. “If you read the business press you hear only about overestimating demand, I had not read anything in the business press about overestimating customers’ sensitivity to delay, the rate at which sales are lost when customers are forced to wait for the product. The optimal level of capacity increases with customers’ sensitivity to delay, so estimating their sensitivity is a very important part of the puzzle.”

She and Armony showed how to tackle the problem using observable data that varies over time, such as the stock distributors have on hand, the number of outstanding orders, the number of orders placed and the number of cancellations per day per distributor, and the length of time that customers wait for the product. In a simple model with one manufacturer and just two distributors, they calculated the most likely values, in technical terms the “maximum likelihood estimates,” of the true demand rate, the average amount of time that a customer will wait before canceling his order, and the rate at which customers can be expected to double order when forced to wait for the item they want.

What Plambeck and Armony found is that errors in estimating duplicate orders and cancellations are common even in stable supply-and-demand environments. “Even if customers are rarely back-ordered, the manufacturer will make a significant error in estimating the reneging rate unless it accounts for double orders,” the authors conclude. “Typically this results in excess production capacity.” In one of the modeled examples, the manufacturer’s capacity is 20 percent greater than optimal because of overestimated demand.

Conversely, say Plambeck and Armony, a manufacturer can invest too little in capacity, again by miscalculating the key factors. “Our analysis warns manufacturers: Watch out for double orders or you might make a grave mistake.”

But Plambeck cautions that the model is “not very realistic—it’s stylized and stripped down to teach a lesson.” In a setting with many distributors, and with buyers seeking out alternative distributors in response to long lead times, so that the incidence of duplicate orders evolves over time, the estimation problem becomes more complex, requiring substantially more computing power, and maximum likelihood estimation becomes no longer effective. Plambeck notes, however, that Stanford professors J. Darrell Duffie and Peter Glynn have developed efficient estimators for complex financial applications. “Ongoing research with Peter Glynn will develop similar estimators to handle industrial-sized problems with duplicate orders,” she says.

—JOYCE ROUTSON


Manufacturing

Estimating customers’ sensitivity to delay is an important part of the puzzle.
Newsmakers

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

By not expensing stock options, Professor Mary Barth says, firms may be giving too much away.

Get Stock Options Out of the Footnotes

“You manage what you measure,” Mary Barth says in one of many recent articles that quotes the GSB senior associate dean and professor of accounting on the controversial corporate accounting practice of burying the news of stock options granted to employees and others in annual report footnotes.

Her opinion counts because she sits on the International Accounting Standards Board, which is developing accounting rules that will be binding—starting in 2005—for companies listing their shares on exchanges in Australia or the European Union. In July the board voted unanimously to require expensing of options, the Washington Post reported. Silicon Valley firms have lobbied heavily against the change, and so far U.S. officials have refused to commit to joining any international standards regime.

Company executives have argued that options are hard to value accurately, but Barth told the San Jose Mercury News that if firms were required to treat options as one of their expenses, many would likely conclude, “We’re giving too much away.” That is what happened two decades ago, she points out, when U.S. corporations finally were required to subtract the value of future retiree benefits from their earnings.

Stealth VC Flies Below the Radar

Their portfolio has included such household names as Beringer, Del Monte, and Continental Airlines, but Texas Pacific Group (TPG) is not well known and “cruises below the radar screen” on purpose, according to the San Francisco Chronicle, which recently reported on the buyout firm’s decision to finance the bankruptcy operation of US Airways.

Organized to buy Continental Airlines in 1993, TPG was founded by Jim Coulter, MBA ’86, and two partners, who made their reputation as smart, contrarian investors by selling Continental for 11 times their initial investment.

Getting Coulter to talk on the record about company strategy is difficult, wrote Chronicle reporter Carol Emert. The firm, with $10 billion under management, is so taciturn that TPG “pulled the plug on its perennially ‘under construction’ Web site on the belief that people who need to know about the firm already do—and that providing easy information on the Web to its rivals is just dumb,” Emert wrote.

She Never Has a Bad Hair Day

Executive perks come in all flavors, but many GSB alums would envy one that belongs to Candace Matthews, MBA ’85. As president of L’Oreal’s Soft Sheen-Carson division, she has a private room with a hair dryer hung from the ceiling and her own swivel styling chair. “They keep me coiffed,” the former steel mill worker and executive for Coca-Cola, Cover Girl, and Bausch & Lomb told the Chicago Sun-Times.

Matthews, who must have struggled for the bathroom mirror, not to mention a hair dryer, as the youngest of 18 children in her Pennsylvania family, was tapped last year to run Soft Sheen-Carson, a beauty products line created for African Americans. Soft Sheen founder Ed Gardner agreed to sell the company only if L’Oreal USA promised to keep it headquartered in Chicago’s South Side, and Matthews’ private salon is part of an $8 million renovation of the old Johnson Products building there, according to the newspaper.

Candace Matthews heads a venerable beauty products line.

Energy Not to Burn

Watch out for Frank Colvin, Sloan ’78—the guy at exhibitions standing near the electric-powered pickup truck. Colvin could “rearrange the planet,” the Indianapolis Star said in a feature about progress on fuel cells and Colvin’s latest assignment—as GM’s vice president for global fuel cell activities.

Colvin has spent much of his GM career consolidating various operations at the giant automaker. This time he is expanding them. About 500 engineers, scientists, and technicians work under him on fuel cells, compared to just 80 three years ago.

Why Didn’t I Think of That?

With her idea on how to improve photocopier reliability, Leslie Preston, MBA ’93, is turning heads in Auckland. Preston’s consultancy, Ingenio, proposed granting the people who maintain and repair the equipment a “virtual franchise.” Since Ingenio took the plan to a photocopier company with 70-odd technicians, the firm has had an improvement of 30 percent in productivity and 25 percent in response time to customers, she told New Zealand’s National Business Review.

Once dispatched like taxis to customers based on their respective locations and the order in which requests for service were received, the technicians now have their own geographical zones. This allows them to get to know their customers and decide which jobs are most urgent. “They now have relationships with people. It’s very powerful,” Preston said.
Track Record to Envy

WHEN FORBES MAGAZINE looked around for investment newsletters that were giving better-than-average advice in this bear market, it found Good Fortune, edited by Bill Ragsdale, Sloan '86, who lives in the farming community of Woodland, Calif.

Tracking the top 30 Fidelity mutual funds, each issue reports on only the top eight, so its recommendations are “crystal clear,” he told Forbes. Its most aggressive portfolio has produced a 19.4 percent annualized return since 1996, Forbes said, and was flat for the year as of July, when the s&p had lost nearly 20 percent.

Ragsdale compares his system to a horse race: “The bell rings, the gates open, and you bet on the first horse out. When they get a quarter of the way around the track, you check to see if you’re on the leading horse—and if you’re not, you jump over to another one. You may not always end up on the winning horse, but at the end of the race, you’ll be on a damn fast animal.”

Power Blurs Reality

IN A STORY on the rise and fall of John Rigas and his company Adelphia, the Chicago Tribune turned to Irving Grousbeck, GSB professor of strategic management, for an explanation of why the company’s management imploded. “We’re all speculating. My speculation is that power is a great insulator,” Grousbeck said. “It insulates you from people saying no, from strongly disagreeing with you, from feeling that you’re human or vulnerable or mortal. That line between what’s right and wrong gets blurred.”

Would a law requiring executives to vouch for the accuracy of their firm’s financial reports help? Finance professor George Parker suggested yes in the San Jose Mercury News. “The analogy that comes to mind is the business of taking an oath in court. When anyone has been sworn

Vadim Zlotnikov made Fortune’s list of all-star analysts, but VC Adam Grosser, MBA ’90, gave one Stanford engineer more than encouraging words or capital—he offered a testbed.

This Analyst Doesn’t Mince Numbers

“The only thing rarer than an unconflicted analyst is a chip researcher with a value philosophy,” Fortune said in introducing Vadim Zlotnikov, MBA ’88, to its third annual list of “All-Star Analysts.” Zlotnikov’s ratings of companies in the tech/semiconductor sector for Sanford C. Bernstein focused on valuation and sales growth, producing a 21 percent return in 2001 compared with a 1 percent loss for the average analyst in that sector, the magazine said.

Born in Ukraine, Zlotnikov was captain of his high school math team, and he clearly is not afraid of juggling large numbers. At one point, he warned that to justify Qualcomm’s multiple of 400 or so, within a decade two-thirds of the earth’s population would have to own wireless headsets with CDMA multiplexing technology.

Experiment Pays Off

WITH ADVICE AND CASH, venture capitalists often tell inventors which ideas to pursue, and when forbes magazine

Forbes

According to the San Jose Mercury News, Jeff Crowe, MBA ’82, is the start-up world’s “cowboy CEO.” That’s because he rides into the CEO’s office, stays a few months, and moves on to the next herd of little dogies. Crowe is called upon by venture capitalists such as Norwest Venture Partners of Palo Alto to help their portfolio companies survive, which often means laying off workers and arranging mergers and buyouts. For instance, six months after he joined PowerMarket, a San Jose maker of supply chain management software, Crowe had led the firm through two mergers, won $11 million in additional funding, and positioned it to better compete, the newspaper said.

The job requires winning over some traumatized employees. While he loves the thrill of new challenges, Crowe said it is tough to leave companies because “part of the way I operate is building trust and developing attachments to people.”

“Who Am I” Gets Easier to Answer

GENTRY IS THE second most popular hobby in the United States after gardening, which is why Tom Stockham, MBA ’91, sees plenty of room to grow MyFamily.com Inc., where he recently became CEO.

A former Ticketmaster division president, Stockham moved back to his native Utah to take the job with the company that has the world’s largest collection of electronic genealogical

Genealogy enthusiasts are fans of CEO Tom Stockham’s company. records, including U.S. Census and Civil War pension records.

In an interview with the trade publication Wasatch Digital IQ, Stockham said he anticipated the day when the company’s computers, using information previously requested by family members tracking their ancestry, would search the databases on their own to find records of interest. Currently, users tell the company what they want to search for.
THE STANFORD BUSINESS SCHOOL ALUMNI ASSOCIATION continues the life-changing GSB experience by connecting alumni, leveraging and engaging the extended GSB community, and creating meaningful programs and services designed for changing personal and professional needs. Lifelong Learning... you never have to leave the GSB.

DYNAMIC CONNECTIONS

FACE TO FACE
Class Reunions, Alumni Weekend, Chapter Programs, Executive Forums, International Conferences, Student Mentoring, Networking, Alumni Consulting Team (ACT), Student/Alumni Dinners, Volunteer Opportunities.

VIRTUAL
Alumni Online Directory, Mail Groups, Email Forwarding, Online Library Research Databases, Alumni Web Site, Online Store, Suggested Reading, Lifelong Learning, Audio/Video Event Coverage, School News.

CAREER ADVANCEMENT
Career Strategy Advising, Networking, Job Postings, Workshops, Networking Lunches, Offsite Counseling, Career Management Center Online.

HIGH-IMPACT LEARNING

INTERACTIVE

BUSINESS BRIEFINGS
@GSB Today, In the Classroom, Executive Forums, International Conferences, Chapter Programs, GSB Speaker Forums, Alumni Weekend Program, Career Advancement.

MANAGEMENT SKILLS
Online Library Research Databases, Faculty Research and Ideas, Conferences and Seminars, Book Reviews, Career Workshops.

KEEP LEARNING

WWW.GSB.STANFORD.EDU/ALUMNI

For additional information, call us at 650.723.4046 or email alumni_admin@gsb.stanford.edu
January 3-5: Executive program “Advanced Negotiation and Deal-Making Strategies,” Dubai, United Arab Emirates
January 19-21: Executive program “Strategies for Effective Decision Making,” Dubai, United Arab Emirates
January 25: Health Care Biotechnology Symposium, Stanford campus. See www.gsb.stanford.edu/events
February 1: 20th annual Black Business Students Association Conference, Stanford campus. See www.gsb.stanford.edu/events
February 2-7: Executive program “Managing Teams for Innovation and Success,” Stanford campus
February 8: Lunar New Year Banquet, Stanford campus. See www.gsb.stanford.edu/events
February 12-14: Executive program “Executing for Growing Companies,” Stanford campus
March 6: Spring Admission Information Session, Stanford campus. See www.gsb.stanford.edu/admissions
March 12: Stanford Alumni and Friends Luncheon, San Francisco. See www.gsb.stanford.edu/events
March 18: Sloan44, Stanford University. See www.gsb.stanford.edu/events
April 1: Future of Content Conference, Stanford campus. See www.gsb.stanford.edu/events
April 14: Executive Education, Nordstroms, Seattle. See www.gsb.stanford.edu/events
April 15: Stanford Alumni and Friends Luncheon, Seattle. See www.gsb.stanford.edu/events
April 18: Executive Education, Range, Kansas City. See www.gsb.stanford.edu/events