We’re planning a very special reunion weekend in the spring of 2003 for the classes of 1988, 1993, 1998, and 2002, who will be celebrating their 15th, 10th, 5th, and 1st reunions. Join us for two dynamic days at Stanford and a chance to reconnect with the Business School. There will be wonderful opportunities to catch up with old friends, spark ideas for the future, and have an all-around great time. Make your plans now for May 2-3, 2003, and watch for more details online.

More information: www.gsb.stanford.edu/alumni/reunions
650.724.4101
brown_lisa@gsb.stanford.edu
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A Winter Smorgasbord

WE STRIVE FOR A GOOD MIX OF STORIES in every issue of Stanford Business, but this issue is particularly diverse. Janet Zich writes about the multiple facets of the School’s newest center, the Center for Social Innovation, beginning on page 16. Her report should be of interest to anyone involved in nonprofit management, philanthropy, or corporate responsibility. Another take on corporate responsibility and leadership is provided by Business School graduates who are CEOs in an article written by former Wall Street Journal reporter Fred Rose, starting on page 22. A report on novel research by Assistant Professor Ulrike Malmendier on CEO investment decisions presents yet another vantage point on corporate leadership; see page 28.

You’ll also find stories about alums engaged in highly personal quests—one whose grief has led to his success as a sculptor, another determined to help his native Turkey take its national airline public, and another who enhanced her self confidence by devoting a year to managing the nonprofit production of a pictorial book, CD, and traveling exhibit on Africa.

By all means, read Eric Zitzewitz’s essay on judging in the Winter Olympics, even if you didn’t follow the figure skating judging scandals in Salt Lake City. The assistant professor of strategic management has statistically analyzed the scoring in several Olympic sports. The work allows him to present some nonintuitive lessons for managers on how to reduce bias in group decision making.

I could go on, but I want to welcome our new production manager, Arthur Patterson, bid a fond farewell to retiring associate editor Nan Christensen, and save room for the readers who have written us letters since last issue. Enjoy.

Letters to the Editor

YOUR ARTICLE “A Season of Scandal” in the November 2002 issue jumps directly into the cesspool of drivel portrayed by other media. Over the past few years, the press has reported on company after company as being corporate criminals and awash with corruption and scandal. Accusations are based on the foundation that corporate America is the root of evil in our society. Attempts at explanation and/or defense by the accused are put down as not credible and self serving. How could these “scoundrels” even consider defending themselves, as we, the people, find them guilty in the people’s court of the press?

Arthur Andersen was put to its knees by the presumed guilt of one or two (long before legitimate guilt had been either evaluated or assessed). AA was and always had been an excellent firm with top-notch people. Now their ex-employees go with their tails between their legs for having ever been associated with corporate scoundrels. They fear even putting AA on their resumes.

Corporations are the backbone of America, providing approximately 70 percent of Americans with their income and livelihood. More than 50 percent of our workforce is in small and mid-sized companies where people work hard and straight for their lives and companies. Many officers and founders lose their entire life savings and file for bankruptcy having given many Americans employment for perhaps but a brief time. This cannot be a sign that corruption is endemic.

The American press is killing our country. Why have national headlines from minimally educated reporters with scant evidence become the basis of guilt? As for the gsb, yes, analyze and criticize and review, but somewhere, sometime, how about encouragement of business, support of the American dream, not just the preponderance of the bad stuff?

FRED W. PATTON, MBA ’69
Oakland, CA

THE NOVEMBER ISSUES OF both magazines [Stanford Business and Stanford] dealt with “A Season of Scandal” and “Ethics in the Wake of Enron.” In these articles a number of distinguished professors expressed their learned views. As a singed Enron investor, the absence of any comment on the role of retired GSB dean and professor of accounting Robert Jaedicke was conspicuous. After all, Mr. Jaedicke did chair Enron’s audit committee. I admit I did not understand Enron’s accounting but banked, mistakenly, that Mr. Jaedicke did. Oops.

NEEL HALL, AB ’54, MBA ’59
Tucson, AZ
Among the many questions that get asked of a business school dean, the one I often hear is, “Why should someone go back to school and get an MBA?” People seem to have a much clearer idea about why students would return for graduate studies in medicine (to practice medicine and heal the sick), in education (to gain a teaching certificate and help shape young minds), or in law (to pass the bar exam and advocate for justice). Unlike the other professions, there is no license required to practice management—so why pursue an MBA?

My answer starts with the observation that our society relies on managed institutions to produce and deliver nearly all our goods and services—public and private. How well those institutions perform their economic and social roles—that is, how well they are managed—has a very large impact on the quality of people’s lives. It is the managers of those institutions, from front-line supervisors to the most senior executives, who work together to determine and deliver the performance of each institution. Management is a tough job, requiring one to work with and through others to accomplish the mission of the organization in an ever-changing environment. It is a noble calling—just as is the work in other professions. You can impact the world significantly when your organization performs well. Society benefits from a job well done, and employees benefit from a positive work life. It takes a lot of practice to become a good manager since there is a huge component of what we now call “learning by doing.”

But in addition to practice, good management also takes a lot of knowledge—knowledge about how economies work, how markets function, how competitors are likely to behave, how organizations function, how resources should be allocated, how people might react to certain situations, and what it takes to make yourself effective as a manager and leader. The purpose of the Stanford Graduate School of Business is to promote learning about management. As a school, we are largely in the knowledge business, and it is our primary duty to create and disseminate the body of knowledge relevant to the practice of management. Students pursue graduate education in management at a place like the GSB to acquire that body of knowledge. While there are always notable examples of successful managers who never went to business school, experience (and logic) tells us that someone is a lot better off undertaking a management career with that body of knowledge than without it.

Bottom line: Someone who wants to undertake a professional career making organizations perform better ought to consider going to business school. If a prospective student is passionate about management as a career, graduate study in management can be a great investment. This education equips you with a way of thinking about the world of management and managerial challenges that is career-lasting and invaluable.

When should someone think about going to business school? Prospective managers are ready whenever they decide that management is the career for them, and they seriously want to learn about the knowledge base an MBA program offers. The challenge for us in reading applications is to determine how serious and well-founded the applicant’s decision is. This is why, in addition to looking at their capacity to handle the rigor of the academic work, we look at how much and what kind of work experience they have. The daily challenges of real-world organizational life offer the type of experiential learning that is an essential complement to an intellectual understanding of management. A decision to commit one’s professional life to a career in management is often more sincere when based on doing managerial and operational tasks—like calling on customers and prospects, feeling rejection from a sales call, managing a team of people, giving and receiving feedback, hiring and firing people, making tough choices within limited resources, living with and learning from your mistakes, following up on the details—than when it is based just on knowing what management is about.

When we attract and admit people who are passionate about management as a career because they want to change the world through the leverage of organizational performance and who have acquired enough knowledge and experience about management to feel confident this is their calling, then we have an exceptional student population that is an integral part of the GSB learning experience. This has been a hallmark of Stanford for many years and is our objective every year as we prepare to admit a new class.
Students Thrown into Leadership Roles

The company was in trouble. Quality control was uneven, communication with suppliers was spotty, and feedback from customers was not encouraging. So a few days before classes began last fall, 60 first-year MBA students took on the task of changing the course of an organization, and in the process gained experience in the sometimes messy role of leadership.

The simulation, part of a leadership development initiative by the Business School, is based on the belief that leadership is best learned through experimentation and practice. The exercise is one of the School's first steps to increase the experiential component of the MBA curriculum.

“We need to help our students know themselves better,” said Dean Robert Joss. “They need to know how they will work in teams, how to give and get feedback, etc.”

Assuming the role of a senior management team, students gathered data, assessed problems, and planned and implemented changes, all the while soliciting feedback and communicating with team members, customers, suppliers, and others. Alumni volunteers played the role of customers and suppliers, ultimately sharing from their professional experience.

“One thing that’s apparent in the real world of business leadership is the need to listen actively and attentively to others,” said Roy Vella, JD/MBA ’96, one of the volunteers. “The exercise gave students a heavy, concentrated dose of that critical practice.”

Associate Dean David Kreps told students they would be asked to develop plans and recommendations for how to handle business challenges. “In the real world, however, plans and strategies are not enough. You actually have to make them happen, and that is crucial to becoming a leader. It requires experimentation and practice.”

Fond and Not-So-Fond Memories

The 25th and 50th reunions prompt people to share the best stories of their post-GSB lives with classmates, but many also write down precious tidbits of School history. Here are two such highlights from last year’s reunion classes of ’52 and ’77:

When Pauline Hart arrived on campus in the early fifties, she was surprised to find herself registered as “Paul Hart.” She also discovered that she was one of three women in her class. “I learned that heretofore two had been the quota, since ‘women’s lib’ had not made much impact yet.”

Hart became the first member of the American Dietetic Association with an MBA degree. She used her skills to develop the concept of contract management for hospital food services and says she “scored many firsts” before retiring from a career in hospital management.

Everyone has been intimidated by a decorous, well-respect ed teacher, but Bob Homans of Norden Capital in Los Angeles has a particularly frightening tale. It occurred in the class of the late Leland Bach, a GSB professor known as a masterful teacher.

Homans, MBA ’77, says he received a call one day from Professor Bach’s secretary informing him that the Great Man could not read his handwriting, and would he possibly be able to go up to his house and read to him the contents of his final exam bluebook in macroeconomics.”

Homans had no choice but to comply.

“It is one thing to write garbage in a bluebook, hand it in, and wait for the results,” he says. “It is quite another to have to verbally present that same garbage to Professor Bach himself, realizing all the time that both of us are probably trying desperately to hold back laughter.”
Shoppers Browse Mail, Mall, Web

The most successful online retailers understand the multichannel habits of today's shoppers, Professor Haim Mendelson told a fall Alumni Weekend audience. The co-director of the gsb's Center for Electronic Business and Commerce argued that the rise of electronic commerce was over hyped and so is news of its decline. Online sales are still increasing for firms that have learned customers don't stay within categories, such as shopping only at a retail store, online, or via catalog. The online sales of Lands' End peak a few days after a traditional paper catalog is mailed, Mendelson said. Car shoppers shift back and forth between Web sites like Autobytel and car lots. Wal-Mart's photo service Web sites like Autobytel and car lots. Wal-Mart's photo service

Alumna Puts Old Bones to New Use

For three decades, the Anatomical Chart Company of Skokie, Ill., has been decorating the walls of doctors' offices with meticulous drawings of the inner human body. Now, many of those images have been gathered into the Women's Health and Wellness reference book, which was published by Lippincott Williams & Wilkins, thanks to new-product developer Lesley Weeks. Ochoa, MBA '95. Hired by the chart company to find new ways to take advantage of its specialty, Ochoa developed the concept for the guide with the chart firm's sales force. She then did a competitive analysis and found medical doctors and other experts to help with text that accompanies the colorful illustrations contrasting healthy eyes to dry eyes with cataracts, or body changes associated with pregnancy and menopause. The goal, Ochoa says, is that when women and girls peruse these female-specific illustrations, their added understanding will prompt them to take a more active role in staying well. In other words, a picture might be worth a thousand pills.

Outsider Turns Around Nissan

As head of Nissan Motor Co., Carlos Ghosn has transformed a $5.5 billion loss to a $2.7 billion profit while boosting the stock price, making him one of the most highly regarded executives in Japan. “If you want to be a leader, make sure you get results,” he told a Business School audience last November.

The accomplishments were not without pain, but Nissan was headed for the junkyard if it didn’t improve its record of seven years of unprofitability and declining market share when the former Michelin and Renault executive was named CEO three years ago. Ghosn cut staff and suppliers and added accountability. Asked what it was like to be an outsider in Japan, he said it was an advantage at Nissan, because he could start with a clean slate. “But being a foreigner is a disadvantage. I don’t speak Japanese, and it’s my first time managing in a country where I don’t speak the language.” He is learning, according to Japanese press reports, but meanwhile, Ghosn is able to communicate in English, French, Portuguese, Italian, and Spanish.

Poet Dana Gioia Goes to Washington

I'm probably the only person in human history who decided to go to Stanford Business School to become a poet,” Dana Gioia, MBA ’77, once joked in the Santa Rosa Democrat. Now that education may pay off in a different way, as President Bush has nominated the Sonoma County poet and critic to run the National Endowment for the Arts. The organization that at least since the Reagan administration has been a lightning rod for impassioned debates about the direction of culture in this country.

Gioia seems an ideal candidate, having set off several cultural debates himself with essays such as “Can Poetry Matter?,” published in 1991 around the time he quit being a vice president of General Foods. The essay argued that a clubby academic subculture was preventing poetry from being widely available to the mainstream. His last poetry volume, Interrogations at Noon, won the American Book Award last year, and his experience in management should help him manage the agency’s $115 million budget and periodic controversies over how it is spent. Gioia told the Washington Post that he accept-

Rankings Report Card

While educators point out that media rankings don’t measure what’s most important about business education—learning—the standings continue to proliferate. In the 2002 biennial BusinessWeek MBA ranking, based primarily on a poll of students and recruiters, Stanford rose to No. 4—the rank last held in 1994, following Kellogg, Chicago, and Harvard. The rank was an improvement over the School’s No. 11 place in 2000.

Stanford was ranked No. 1 in U.S. News & World Report’s 2002 annual survey—as it has been in the previous four business school rankings by that magazine, which polls academics and recruiters about the best programs, and looks at salary levels upon graduation, among other factors. The Business School tied with Chicago and Columbia for the No. 3 slot in the 2002 Financial Times’ ranking, which surveys alumni about their salaries and career advancement, and factors in the international aspects of programs along with a measure of faculty intellectual firepower.

Meanwhile, Stanford scored No. 39, up from No. 45, in the 2002 Wall Street Journal survey of 1,600 recruiters.
Rescuing an Elephant

IT TOOK AN OUTSIDER TO point to IBM Corp.’s problems and a crisis to solve them. So says Louis Gerstner, the architect of the Big Blue comeback, who retired in 2002 as CEO. Gerstner, author of a new book, *Who Says Elephants Can’t Dance?*, spoke to a Business School audience in November.

Gerstner says that culture—not the product nor the manufacturing process—is the most important element in an enterprise. He said it is impossible to change an institution—be it private or nonprofit—without changing the culture. “The levers you have to pull are cultural, not directional. It’s how people think, what they value, what they do.”

Dean Robert Joss, who with CNET reporter Dan Farber interviewed Gerstner, pointed out management can’t unilaterally change a business’s culture. Gerstner agreed, but said you can tell employees that if they don’t support change, the company they work for won’t exist.

When he retired, Gerstner had convinced the highly intellectual, individualistic $80 billion working culture at IBM to work as a team. “We understood what made us successful was our size,” he said. “When the elephant dances, all the rest on the dance floor leave.”

Research Reports: Analysis or Publicity?

SELLING IS A “NOBLE function in the United States,” finance professor George Parker told alumni/ae last fall, but “no one should ever expect salespeople to give an independent evaluation of their products.” That, in a sense, is what many investors

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**FOR THE RECORD**

**Placement Report: MBA Class of 2002**

**INDUSTRY ANALYSIS**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage of Class</th>
<th>Median Base Salary</th>
<th>Median Total Compensation</th>
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<td>SERVICE (78 PERCENT)</td>
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**MANUFACTURING (22 PERCENT)**

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**AT A GLANCE**

**Top functions**
- Consultant: 26 percent
- Brand/Product/Marketing Manager: 12 percent
- Investment Banker: 12 percent

**Total compensation**
- Median: $130,000 (down 10 percent from previous year)
- Range: $18,000–$300,000

**Base salary**
- Median: $95,000
- Range: $18,000–$185,000

**Top five career choice factors**
- Compatibility with people in firm
- Opportunity for broader career
- Intellectual stimulation
- Early responsibility
- Compensation package/potential

**Top employers (hired five or more ’02 grads, in alphabetical order)**
- Bain & Company
- The Boston Consulting Group Inc.
- Goldman, Sachs & Company
- McKinsey & Company
- Microsoft Corporation
- Morgan Stanley Dean Witter
- Siebel Systems Inc.

**Miscellaneous**
- Average number of job offers per student: 2
- Graduates starting entrepreneurial ventures: 26
- Graduates going to private companies: 56 percent
- public companies: 41 percent
- nonprofits: 3 percent
- Change in industry from pre-MBA: 71 percent
- International focus: 13 percent of positions
- are based outside the United States; 53 percent
- of positions are international in scope.

**Source:** Stanford Business School Career Management Center
Solomon at Forefront of Finance Evolution

Professor Emeritus Ezra Solomon, who laid the foundation for the modern understanding of financial management with the 1963 publication of his seminal book, The Theory of Financial Management, died of a stroke Dec. 9 at age 82 in his Stanford home.

Solomon, who joined the Business School faculty in 1961, was a member of President Richard Nixon’s Council of Economic Advisers from 1971 to 1973 when the United States suspended the convertibility of dollars to gold and imposed wage and price controls.

“A lot of people go to Washington and wind up thinking they can give political advice,” said emeritus professor George P. Shultz, who was secretary of treasury at the time and later secretary of state.

“Ezra stuck to economic advice and agreed with the fundamentals. He was a gifted economist with real wit, and had a wonderful, candid, clear way of expressing himself.”

Banking and finance professor James Van Horne recalled the influence Solomon’s 1963 book had on corporate finance theory. “In the 1940s and well into the 1950s, finance was largely descriptive as taught in most schools. Ezra helped move the field toward a more rigorous theory-based foundation—a more mathematical expression,” he said.

From 1965 until the early 1970s, Solomon was the managing editor of Prentice-Hall’s book series Foundations of Finance. “Those books had an important influence in both accounting and finance,” Van Horne said, “and Ezra as the editor persuaded others, mostly at Stanford, to contribute.”

Born in 1920 in Burma, Solomon began his academic career at the University of Chicago. He moved to the Stanford Business School to become founding director of the International Center for the Advancement of Management Education (ICAME). The center drew faculty from business schools in developing nations for a year of intensive management education. He also became the School’s first Dean Witter Distinguished Professor of Finance.

Contributions in his memory are being made to the Ezra Solomon Faculty Fund, established at the School in 2001 through a gift from Stephen Luczo, MBA ’84, Solomon’s former student, now CEO of Seagate Technology.

The Waiting Game

He made it easy for you to sell your garage junk in a few days, but Steve Westly, MBA ’83, had to wait more than two weeks last November to find out that he had won the job of California state controller. Westly, a former vice president of electronic auction giant eBay, won the seat by 16,811 votes.

But because Californians cast so many provisional and absentee ballots, it took election officials weeks to count enough of them to certify Westly the winner, though close contender Republican state Sen. Tom McClintock conceded on Nov. 18. When Westly won, the Democratic Party recorded its first sweep of statewide offices in more than a century.

Election experts say we can expect more long waits in close races. Because Florida officials turned away many would-be voters in the close 2000 presidential election, the federal government has mandated that by next January all states create a system for provisional voting that will allow people to vote even when their registrations are misplaced.

CEO Sees Inequities in Patent Rights

Sidney Taurel, CEO of pharmaceutical giant Eli Lilly, argues that legislation that chips away at patent protections is actually an attempt to limit health care spending by transferring intellectual property from innovators to imitators.

The law permits other industries to protect their trade secrets longer than the pharmaceutical industry, he said during a fall quarter View from the Top speech. “One hundred years from now, the formula for Coca-Cola could still be secret, but for the pharmaceutical industry, we can only keep competitors from acquiring and using our most valuable trade secrets—our clinical trial data—for five years.”

Battle of the Bands

The battle of the bands, a competition among bands made up of students, venture capitalists, and small business entrepreneurs, drew together the GSB and the surrounding community for a night of awareness-raising, music, and fun in October. The event benefited Start Up—an area nonprofit that promotes economic development in East Palo Alto. Students, alumni, and local venture capitalists gathered on the Business School’s front steps and declared Culture Shock, a Fijian band composed of Start Up entrepreneurs, winners of the battle.

Pictured from top: Filipe Kamakorewa singing and strumming with Culture Shock; Rodney McBride of the Start Up staff band; and, John Hebert, a first-year GSB student who was a member of the student band. Start Up was founded by six GSB students in 1994.
Unexpected Lessons in Self Confidence

What started out as a request to make a few fundraising phone calls turned into a massive personal, professional, and logistical challenge for this ’96 graduate.

SETTING OUT TO GIVE THE WORLD a different view of Africa, she wound up getting a different view of herself. So says Ariane de Bonvoisin, the senior advisor for the coffee-table book *A Day in the Life of Africa*, which was released to much fanfare in October. The 14th book in the “Day in the Life” series, this is the first for a charitable cause—AIDS education in Africa—and thanks to de Bonvoisin, also the first to feature a CD with photos and music, a world-traveling photo exhibit, and a documentary to tell how all were made.

Working without pay and living frugally in Manhattan on her savings and unemployment checks, the 1996 MBA graduate raised millions of dollars to finance the project, which involved airlifting 95 photojournalists across the breadth and width of Africa for a day of shooting on Feb. 28, 2001. It also involved seeking endorsements from United Nations and African leaders and finding sponsors to donate digital cameras, computers, and other equipment. Donations also finance the traveling exhibit that held its grand opening in New York’s Grand Central Station last fall.

For de Bonvoisin, it all began at a lunch where she volunteered to make a few calls to potential sponsors. “I had just left AOL Time Warner and thought I could use the skills I learned there and at Sony, where I was on the other side of the desk, with people asking me to get the corporation to invest in their startups.” Later, because of her business training, she realized the “Day in the Life” brand could be extended to other products—an insight that launched her into a year’s worth of volunteer activities. Logistically, she says, one of her important challenges was making sure all the sponsors were kept involved. “I know from experience that people in large corporations complain that once they write the check, they never hear from us again.”

The experience has spoiled her for large corporate jobs in the near future, however. “I had self-confidence before, but it wasn’t the same as the belief I have in myself now,” de Bonvoisin said one day last autumn, as Oprah Winfrey’s producers were tracking her down for a look at the documentary, and the book had landed on the bestseller list of Barnes & Noble.com. “I knew that as Ariane from Sony or Ariane from AOL Time Warner I could get the World Bank to call me back. I didn’t know I could do that when I was Ariane calling from my home office.”

That is not to say she did not get plenty of rejections, but “because of them, I’m a lot less vulnerable to other people’s opinions,” she says. “Yes, there are a lot of reasons why putting 100 photographers in Africa on a single day should not work, but it did.”

So, what is her encore? “I’ve hired a wonderful agent and am pursing my own publishing idea,” she says, not volunteering to reveal details quite yet. Check out the ’96 class notes in about a year.
“Corporate and Foundation Investors are esteemed members of the GSB community who keep faculty and students well connected to new developments, practices, and concerns in the business world.”

Robert L. Joss, Philip H. Knight Professor and Dean

Principal Investors

$500,000 and Above
- Cemex, S.A. de C.V.
- The William and Flora Hewlett Foundation
- The David and Lucile Packard Foundation
- Pfizer Inc

$100,000 to $499,999
- The Charles Schwab Corporation
- Goldman, Sachs & Co.
- Intel Corporation
- The Spencer Foundation
- The Dean Witter Foundation

Lead Investors

$50,000 to $99,999
- Accenture Foundation Inc.
- The Barrett Foundation
- Eli Lilly and Company
- Ford Motor Company Fund
- The MacDonnell Foundation
- Morgan Stanley
- Sun Microsystems, Inc.

Senior Investors

$20,000 to $49,999
- Bain & Company
- The Boston Consulting Group
- Capital One
- Carrier, Inc.
- McKinsey & Company
- Perry Capital Management, Inc.
- The Prittsion Company

Investors

$10,000 to $19,999
- Beazley Allen & Hamilton
- Capital Research & Management Company
- Cisco Systems
- Dodge & Cox Incorporated
- ExxomMobil Corporation
- Fujitsu, Ltd.
- General Mills, Inc.
- Granite Rock Company
- HNC Software
- Iihisyama Corporation
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Note: All support acknowledged here was received between September 1, 2001, and August 31, 2002.

If you are interested in learning more about the Corporate Investors program, please contact:

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Détente in the Interview Room

Students and Career Management Center staff are working together to change prospective employers’ experience with the recruiting process.

Some recruiters told me that behavior was not great at any of the top schools during the dot-com heyday. A number also said that at Stanford, professionalism had improved since that time. However, many voiced suspicions that the bad behavior would return in perfect step with a healthy Nasdaq. Moreover, they said that even in the current economy our candidates showed less flexibility in location, starting salary, and job title than students from the other top schools. Our class had fewer of the big-ticket infractions like missed interviews, but our general preparation for interviews remained problematic. It became clear that as of the 2001–02 recruiting season, the students had not entirely shaken the rap picked up two years earlier.

Students are waking up to the challenge of changing our reputation for the better. Second years David Yao and Elaine Wong are leading a charge to improve interviewing professionalism. The co-chairs of the CMC advisory committee began this fall by conducting an awareness campaign around the issue, and as of this article going to print, were collaborating with the Student Association on next steps. First- and second-year leaders are now working on creating a viable, student-owned mechanism that will keep the tenets of good form in place.

In the meantime, a new CMC policy has begun to address these issues. This year each student must sign “Student Recruiting Conduct Guidelines” to participate in on-campus recruiting or to use the resources of the CMC. This contract directly addresses many of the recruiters’ pet peeves, including timeliness and company-specific interview preparation. As the use of CMC services evolves from a right into a privilege, job-seeking students will likely become more conscientious in all aspects of interviewing behavior.

Even a sea change in student behavior, however, may not be enough to efface all of the challenges to our reputation. As behavior and preparation improve, we may continue to see some recruiters frustrated by an even more common complaint: low yield on job offers.

Stanford Business School is relatively small, so recruiters have to work harder to hire or even to interview as many students as they want. One investment banker who expressed general dissatisfaction with
Business School candidates’ preparation said later in the same interview, “I always notice that when we do get people from Stanford, they’re head and shoulders above the other people.” Recruiters consistently praised the interpersonal skills and the intelligence of gsb students—they just wished it were easier to recruit them.

Some recruiters told me they were frustrated by the sense that students come to the gsb because they want to stay on the West Coast or because they want to be entrepreneurs. In fact, about half of the Class of 2002 remained in the West, and about 6 percent chose to start their own companies. While firms would like the School to make it easier to hire gsb grads, this would require altering the makeup of the student body. If we start trying to “harvest” graduates that the big firms want to hire, we become little more than an elite job-training program for banks and consultancies. We want businesses to welcome our graduates with open arms and checkbooks, but we must match the recruiting firms to the student tastes, not vice versa.

The cmc is on the front lines, handling these challenges with recruiters. It monitors student preferences carefully to encourage the right firms to come to campus. Because there will always be some slack, the cmc also actively manages firms’ expectations about the yield they will see.

In fact, under the leadership of director Andy Chan, the center has overhauled many aspects of its operations. Other changes include new furniture and Internet connections in recruiting rooms and a new online scheduling system. The cmc also has become more responsive to students and recruiters. The center staff size has grown by 30 percent to strengthen corporate relationships, student advising capabilities, and overall service levels. Staff even operate a table every day during lunch at the Birds, where they field student questions and provide drop-in career counseling.

In the fall of 2002, the media rankings that somewhat reflect recruiter perceptions began to show improvement for the gsb. We made a resounding leap from No. 11 to No. 4 in BusinessWeek, and we made modest gains in the Wall Street Journal ranking to No. 39. (For Andy Chan’s response to the wsj rankings and methodology, see the alumni Web site: www.gsb.stanford.edu/alumni/chan.html.)

We are moving in the right direction. With the positive changes at the cmc and among the student leadership, I’m confident the business community will see a steady and certain improvement in the experience of recruiting graduates here.

alumni services | BY CATHY CASTILLO

Get Tuned Up with Lifelong Learning

One evening last September, some 70 alumni/ae listening to faculty member Rod Kramer describe the nature of genius sat transfixed in a classroom. Finally, 15 minutes after the session had been scheduled to end, Erica Richter, the Alumni Association’s associate director for Lifelong Learning, apologized that they’d run out of time. A few attendees filed out to the patio, where a reception had been set up, but moments later an enthusiastic member of the audience rushed after them and announced: “He’s agreed to keep talking.” Wine glasses and plates were filled, and the crowd piled back into the classroom to continue the discussion for another hour.

The program was one of the offerings of the School’s Lifelong Learning initiative, designed to help alumni remain involved in the intellectual community long after they graduate.

“Our programs try to remove geographic and time barriers,” Richter says. “We have events on campus, but we also design activities specifically so people can be involved even if they can’t be here physically.” Alumni from Singapore, Bolivia, Germany, Italy, Mexico, Kuwait, and Greece, and throughout the United States, have signed up as Frequent Learners, asking to receive email newsletters which provide information and notification of activities.

Many offerings can be accessed through the program’s Web page (www.gsb.stanford.edu/alumni/lifelonglearning/). The site includes written or video descriptions of recent speakers and conferences, syllabi, and video giving a sample of current classroom offerings and information about upcoming events.

One of the most popular online features thus far has been “Course and Seminar Reading,” containing bibliographic lists of readings recommended or required for current courses at the School. The “Suggested Reading” section also invites alumni to recommend books, and lists recent publications written by faculty or gsb graduates.

“In My Opinion” poses a question or states a position and invites readers to share their views. Topics have included the proposal to require MBA graduates to pass a certification test, a discussion of teaching ethics in the classroom, and a debate titled “Will Internet Voting Reinvent Politics?”

Lifelong Learning also offers CDs of faculty lectures, with slides and other supporting materials that create a type of mini-class. “This is one way we’re trying to use technology to extend the School’s connection with its graduates,” says Richter, MBA ’79. A monthly newsletter, @GSB Today, reaches out to all alumni for whom the Business School has email addresses and recaps news and current research, and outlines services offered.

For those who can attend events on campus, Lifelong Learning offers eight faculty programs each year along with small, informal events featuring alumni. These events are targeted to different career levels and professional development plus outside interests, such as a discussion of the California wine industry.

Another service allows alumni to subscribe to four databases offering online access to major newspapers and magazines through Jackson Library. “It’s a great addition to the Internet resources people have already,” says Richter.

“You develop business knowledge and skills while you’re a student. It makes sense to continue building on those as you move through your career. We’re trying to offer some useful and fun ways to do this.”

Lifelong Learning at a Glance
Erica Richter, assoc. director, Lifelong Learning
Priya Singh, program manager
Barbara Daines, Web editor
Sign up to be a Frequent Learner to receive early notification of programs at www.gsb.stanford.edu/alumni/lifelonglearning/
Lessons for Business from Olympics Judging

Forcing decision makers to boil their opinions to a single vote can encourage bias and vote trading, says a researcher who studied Olympic winter sport judging.

When designing a group decision-making process for potentially biased managers, intuition tells us that throwing out extreme opinions neutralizes the most severe biases among the group’s members and leads to better decisions. Surprisingly, new research suggests our intuition may be wrong.

In a corporate setting, empirical data on the impact of biases in group decision making is hard to come by. Luckily, a parallel setting exists that offers a rich dataset of biased decision makers coming together to attempt to reach an impartial decision: winter sports judging in the 2002 Olympics.

Consider figure skating. As we’ve known since long before the 2002 Olympic vote-trading scandal, figure skating judges are nationally biased. As a response to these biases, figure skating underweights extreme opinions more than any other judged Olympic sport. Judges’ scores are compressed into an ordinal ranking of skaters, and then the winner is determined by who is ranked higher on a majority of scorecards. If four judges think the Canadian couple skated a lot better than the Russian couple but five judges think they skated a little worse, the Russians win.

It sounds like a good idea to throw out extreme scores when judges may be biased, but this actually makes things worse. Throwing out extreme scores throws away a lot of information. Using techniques I developed to study stock analyst forecasts, I find that extreme opinions have information, noise, and bias in the same proportions as less extreme opinions. In short, those extreme opinions are not as biased as we think. The same is true for analysts. When an analyst says something very different from the pack, listen to her!

Also, turning opinions into votes actually can make vote trading easier. It’s easier to agree on “You vote for my skater” than “You add 0.1 point to whatever you would normally give my skater.” I find evidence of vote trading throughout the figure skating judging data, and the judging blocs are exactly what you’d expect from the 2002 scandal: The Cold War countries of Russia, Ukraine, and Poland aligned with France on one side; the United States, Canada, Italy, and Germany on the other.

The other judged winter sports—ski jumping, moguls, aerials, and snowboarding—have much less-biased results and no evidence of vote trading. And this gives us our second lesson: Career concerns matter. In figure skating, national federations choose the judges, and, not surprisingly, they select for the Olympics the judges with the most nationally biased track records. Think of Yuri Balkov, who was caught on tape (successfully!) fixing the 1998 Olympic ice dancing competition and was nonetheless chosen by Ukraine for Salt Lake City in 2002.

In the other sports studied, the International Skiing Federation selects the least biased judges. Ski jumping judges still have some nationalistic biases—they hide them in minor events but express them in the Olympics. But rather than trading votes, other judges compensate for each other’s biases, so an unrepresented athlete is not at a disadvantage.

So what does this teach us in the corporate world? Suppose the promotion committee of a professional services firm is choosing a new partner. Or a company’s division heads must decide among several projects to greenlight and devote resources. In both cases, the chair or group leader must contend with the inherent favoritism of the partner who is most familiar with the candidate or the division head who would reap the...
most benefit from the approval of a particular project.

Olympic judging is most similar to a committee that allows biased decision makers to participate rather than recuse themselves. Organizers do not adjust for known biases, but as observed in ski jumping, sometimes other judges do. Also, organizers can use career concerns to create incentives for limiting biases.

An important departure from sports judging is that most organizations do not insist on simultaneous voting, preferring instead to reach consensus and resort to formal voting only when opinions become deadlocked.

Even so, I offer three observations from my research:

- Value fairness. To the extent that organizations can cultivate a taste for fairness among decision makers, nearly unbiased outcomes can be achieved.
- Be aware of career concerns. If managers are accountable to someone who cares primarily about the quality of the decision, rather than which decision is taken, you will get better decisions. Part of the role of a strong committee chair is to make sure that members are rewarded for providing unbiased information and act as a counter-weight to interested parties within the organization.
- Recognize the cost of opinion truncation. Contrary to intuition, truncating opinions into votes uses information inefficiently, with the additional likelihood of encouraging bias and vote trading. This is why voting should be a last resort in group decision making. In a well-functioning committee, extreme opinions are respected and given extra weight, and members are selective about when they give them. If members are not selective enough, though, committees can fall into a situation where every opinion is extreme, and the only way to make decisions is to count votes. Keeping groups small can help, but the committee chair is important as well.

Heed these lessons from Olympic winter sports judging, and no one will get clubbed in the kneecap.

Eric Zitzewitz is assistant professor of strategic management at the Business School.
people

Casting One’s Grief

MARTIN KATZ, SEP ’74

A cheerful “you’re 47 seconds early” bubbles through the opening front door, followed by a smile reminiscent of George Burns. Martin Katz, pharmaceutical research scientist, business executive, and now successful sculptor, moves into view with the same dynamic energy that brings life to his art. Behind him, the foyer is a Japanese garden, with fishpond, carvings, and sculpture from around the world, a hint of the artwork that dances through the rest of the sprawling California home. But the compelling focus is the man himself, at once the perfect host and eager docent. His most famous sculpture is nothing but an empty pedestal that day; the piece itself, Yizkor, is part of a special exhibit of the National Sculpture Society, “In Remembrance: September 11.”

Yizkor means “remembrance of souls” in Hebrew, and Katz created it in 1995 following an annual memorial of the tragic death of his 21-year-old son. Several days into a workshop the teacher approached him and said, “What’s going on here?” It was only then that Katz realized what he had been forming—three figures locked in grief, the emotion of the piece so raw and universal it would in 2002 serve as a symbol for an entire nation.

“I was part of a generation that was told, ‘Art? You gotta go make a living,’” Katz says. So he put that boundless energy toward a successful career in pharmaceutical and cosmetic research, primarily with Syntex. “Culture came late,” he claims. “I was the definition of chutzpah. I would see sculpture in a museum and think, ‘What’s the big deal; I could do that.’” He took his first-ever art class in 1984 at the age of 57.

“I was trying to come back to the world after my son’s death,” he says. By 1990 when he left his role as senior vice president of research for Advanced Polymer Systems to consult for several pharmaceutical firms, he could give his art more time. His works are all based on the human figure and range from ceramics to metal, classical to whimsical, with a more recent nod to the abstract. “I’m like a kid in a candy store,” he says with that smile when asked which process he prefers, and it’s clear that if Katz were a sculpture, the title would be Nachat, Hebrew for “delight.” – LISA EUNSON

Pop, Planes, and Politics

CEM KOZLU, MBA ’71

When we last caught up with Cem Kozlu, he was leading a double life as a politician and writer. That was 1995. Now he’s living triple. Kozlu’s day job is president of the Coca-Cola Company’s division for 48 countries in Central Europe, Eurasia, and the Middle East.

Several times a month he hops a plane from Vienna to Istanbul, where he “regenerates” by strategizing about restructuring Turkish Airlines (THY). In his spare time, he still writes and is about to publish his fifth book on business and economics in Turkey and other developing countries.

Now chairman of the airline’s board, Kozlu was once also its CEO—the first with private sector experience. He gained international attention in the early nineties for turning around the poor service and spotty on-time record for the state-owned carrier. With the goal of privatizing THY, he ran for parliament and won in 1991 but says now that he was “too idealistic for the slow pace of change in government. It is hard to achieve anything measurable. The greatest push for change in Turkey is coming from the business community, which is more global in scope, and from the younger people who are educated abroad.”

Crises (including a deadly airliner crash in January) tend to delay privatization. Turkey was hit with a major earthquake in 1999, followed by a national economic crisis that culminated in a bailout loan from the International Monetary Fund. Despite the recent recession and terrorism, Kozlu’s team has been praised for keeping the airline in the black last year while many airlines sought government subsidies. THY reduced its number of flights, changed routes, sold aircraft, pared in-flight meals, and negotiated temporary pay cuts ahead of action by others.

“The airline industry in Europe is on the verge of major restructuring, by which I mean the addition of low-cost, no-frills airlines like (U.S. carrier) Southwest,” Kozlu explains. “To succeed in that environment, we need to be very flexible. Our strength is that our hub, Istanbul, sits at the corner of European access to Central Asia, the Caucasus, and North Africa.”

Kozlu still plans to take the airline public one day. “It’s a question of timing,” he says. “With the industry downturn, this is not the best of times for an IPO.”

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Reaching Across Public and Private Sectors

With the involvement of many Business School and other Stanford faculty, a new organization searches for solutions to some of today’s most pressing social problems.

By JANET ZICH • Illustrations by CAMPBELL LAIRD
Betsy Vander Velde is president and CEO of Heart of America Family Services in Kansas City, Kan., an agency that serves a seven-county area. In March 2002, she attended the Executive Program for Nonprofit Leaders. “I was pretty beat up when I got there,” Vander Velde recalls. “2001 had been a horrible year for us.” The nationwide economic downturn had put her agency’s normally healthy budget in the red for the first time in years. “I felt my board blamed me. I blamed myself. I was exhausted. When I got to Stanford I was like a garden that hadn’t been watered.”

The Executive Program for Nonprofit Leaders (EPNL) is as much about nurturing nonprofit leaders like Vander Velde as it is about developing their management skills and capabilities. “The demands and sacrifices of working in the nonprofit world often lead to burnout and eventually to the loss of talented leaders,” says James A. Phills Jr., acting associate professor of organizational behavior at the Business School who is also faculty director of the executive program. “All the folks in the program are presidents, executive directors, CEOs of their organizations, and that’s a particularly lonely job. The fact that they came together and shared the experience of the solitary nature of leadership was an important part of community building.”

Vander Velde and her classmates were sponsored by the Center for Social Innovation (CSI), an umbrella organization led by Phills and Dale T. Miller, the Morgridge Professor of Organizational Behavior. With 17 affiliated Business School faculty and many others throughout the University, the center reaches across the public and private sectors to find solutions to some of today’s most pressing social problems. The reason for its inclusive approach is simple. Says Phills: “The fundamental nature of the problems we’re
I'm sitting on a plane cruising at 30,000 feet on my way back to Boston after spending two weeks at the Stanford Executive Program for Nonprofit Leaders (EPNL). The Stanford experience was much more than I had anticipated. It wasn’t just about education. It turned out to be a reflection on how I functioned as a manager and a leader and what that means to the Robert F. Kennedy Children’s Action Corps. All of this is simply a way of stating that I am seeing myself, my skills, and most important, the agency I’m working with from a different place. Dare I say, a more enlightened place. I’m grateful. I’m fascinated. And I’m scared, as I sit here reflecting on the best way to share what I’ve experienced.

I remember a long walk back to the Schwab Center after class with Joel Podolny and Jim Phillips. They advised me that if I had approached the strategy of my agency’s contracting differently, a contract we’d recently lost might very well still be with us. I raised the contract issue in the first senior team meeting after my return from California explaining that I learned we do some things extremely well, but that we’ve also made mistakes. I could tell people didn’t believe we could have done anything differently. I reached into my briefcase and took out Built to Last by Jerry Porras and James C. Collins. I told them, “This is an interesting book, and when you walk through it, you’ll see what I mean.”

I distributed copies of the book and Joel and Jim’s presentations to the 11 members of my senior management team. We agreed to meet two weeks later and share our thoughts on the materials. The time arrived, and as we sat through lunch, I could sense in the group a certain uneasiness. I asked how many in the team had read the whole book, and I was disappointed to see only 2 hands out of 11 raised. I reflected on my own skepticism before I went to Stanford and resisted the temptation to bark like an executive director.

Instead, when we got to a discussion of corporate cultures, I asked the group, “Well, what do you think the culture of the RFK Children’s Action Corps is around new initiatives? I think one of the cultures of the organization is that you don’t really have to do what the executive director tells you.” I pointed out that if the executive director asks 11 people to read a book and 2 do it, then the other 9 must have a sense that to not read the book wouldn’t have any ramifications. This was the first time our discussion became delicate but certainly not the last.

Two weeks later, on a deck overlooking a lake in central Massachusetts, the senior team assembled one more time. This time, they had read the entire book and all the materials. I watched this talented, committed group of leaders discuss, debate, and critique the principles that are vital to their trade. We were on the same page. We understood there was a strength and an integrity in the agency that we all shared great pride in. At the same time, we saw the difference between being leaders and being managers. And we came to the full understanding that our job was no longer perceived to be the protection of the chil-
“Schools were designed 100 years ago,” says Linda Darling-Hammond of the School of Education and codirector with Phills of the new institute. “Education is a mass process like businesses used to be when they were designed on assembly-line models, and school leaders have been trained to lead organizations as they are. Businesses have redesigned. We have the same need.”

CSI’s approach is important because corporate social responsibility and nonprofit and public sector management are both about trying to make the world a better place.

What the center brings to SELL is its expertise in organizational design and development of the nonprofit leader, says Darling-Hammond, adding, “Our first point of connection is the Executive Program for Nonprofit Leaders.” SELL also is developing a summer program for urban school leaders and their teams as well as a class in case research, to be taught by Darling-Hammond and Phills, in which students from master’s programs in business and education will go out into the public schools to conduct on-site research.

csi blesses courses and cases on social innovation at every level from undergraduate through graduate to executive offered by Stanford’s schools of humanities and sciences, education, engineering, medicine, and business. Under the center’s Environmental Sustainability Initiative, more than 40 new case studies have been completed or are under way. They will be used in courses like the one on eco-tourism developed by William Barnett of the Business School and William Durham of Stanford’s Department of Anthropological Sciences, to be offered this spring for the first time.

The center also supports research in many areas. Researchers from the Stanford Project on Emerging Nonprofits, led by Walter W. Powell of the School of Education, are tracking the growth and organizational development of 200 new nonprofits over a 2- to 5-year period. A research fellows program that will bring three or four scholars from different disciplines to the Business School is slated to begin in the near future. During their year of residence, the fellows will address, from their various perspectives, a topic relevant to social innovation. The topic will change from year to year, says Miller. Reports from these and other research projects will be covered by the Stanford Social Innovation Review, a journal founded by csi that begins publication this year.

At age two, the Executive Program for Nonprofit Leaders is the

dren who are in our care today, but, beyond that, to be certain that the agency is available to children 10, 50, 100 years from now. We have the responsibility to make sure this agency is truly built to last.

We decided the best way to continue this paradigm shift within the agency was to involve as many people as possible in the discussion. In order to do this, we founded the Robert F. Kennedy Children’s Action Corps Leadership Institute, which met for the first time on Oct. 29, 2001. Forty-four program directors, assistant directors, principals, assistant principals, clinicians, outdoor adventure experts, and administrators assembled in a professional conference center for a presentation and discussion designed to convey the message that something new has begun and you are part of it. At a later meeting, the institute would arrive at a statement of the core values of the agency that I believe is the most clearly articulated description of the agency’s purpose in its history. It would go to the board of directors in March 2002 and be ratified.

It’s easy to tell anecdotal stories about the value of something. And so, when asked to document change in our agency as a result of the EPNL program at Stanford, I would say that we are a long way from knowing exactly the long-term effects. But I am confident that over the next year or so we will continue on our path and implement new ways of connecting our actions to the core values arrived at by the Leadership Institute. If there is one place where the EPNL connected the dots for me, it is that leadership is not a secondary responsibility having only to do with the financial life of the program. Far more important, it is a commitment to make an organization live its values on a minute-by-minute, second-by-second basis—thus guaranteeing the long-term viability of the organization.

– EDWARD P. KELLEY, EPNL ’01
Creating Better Philanthropy

Poverty doesn’t necessarily breed terrorism, Gordon Conway, president of the Rockefeller Foundation, told the gathering at a conference on international giving six months after the terrorist attacks on New York and Washington, D.C. “But we do know that poverty provides justification, a sense of legitimacy, to those who wish to be terrorists.”

The Rockefeller Foundation concentrates its philanthropy on the poor and excluded of the world, particularly in areas where government or big business have let them down. The foundation has stepped in to finance small, struggling biotech companies in developing microbicides for African women to protect against HIV/AIDS. It has partnered with the Gates Foundation to develop a vaccine against the disease; the vaccine is now in the final stages of testing in Nairobi. And it joined with the United Nations and the Japanese government to fund African scientists who crossed an African rice with an Asian rice to develop a new strain growing now in West Africa.

“I believe that modern societies, whether they are in the developing countries or here in the United States, are like three-legged stools,” Conway says. “They have three legs: the government, the private sector, and the ngo sector. I think the big chance for philanthropy, apart from funding the ngo sector, is to help create the binding that brings those three sectors together.”

Conway was speaking at a two-day conference on global philanthropy, “Borderless Giving,” one of four major conferences on philanthropy sponsored by the Center for Social Innovation in the past four years. The others included one on entrepreneurial philanthropy, another on corporate philanthropy, and a third, called “High Impact Philanthropy,” which was followed later in the year by a three-day executive education program of the same name.

Although it is most visible for its outreach in philanthropy, the Center for Social Innovation also has several research projects under way that deal with the subject, most notably the Stanford Project on Emerging Nonprofits, in which researchers are assessing the impact of various types of philanthropic funding sources on young nonprofits. The center hopes to determine how different funding models—traditional foundations, venture philanthropists, corporate and individual foundations, and individual givers—affect the growth, organizational development, and performance of startup service agencies.

The study of philanthropy promises to remain a major concern of CSI. As Rockefeller Brothers Fund President Stephen Heintz put it at the “Borderless Giving” conference, philanthropy is, after all, “the venture capital of social innovation.”

You have to tread easily at first, Cousineau has found. “You have that two-week wonder thing to deal with. I approached the board first. They’re business people; they can relate to it.”

Six months after ENPL, Vander Velde phoned last fall from Philadelphia, where she was attending the annual conference of the Alliance for Children’s Services. “ENPL profoundly affected my life,” she reported. “I came back from Stanford realizing I really love what I do. I’m developing a new strategy to deal with my agency’s problems, and I’m optimistic about it.”
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RESTORING CONFIDENCE

CEOS EMPHASIZE TRUST AND TRANSPARENCY. BY FRED ROSE

WE LOST IT SOMEWHERE IN THE 1990S amid the soaring stock market, the cultish faith in emerging technologies, and the promise of “new economies.” That’s when intelligent management theory blew up. Again and again we heard that “the old rules don’t apply,” as if fictional space hero Buck Rogers had landed in the boardroom with management techniques wildly detached from the past. Everything could expand without limits, we were told. Inventories moved at the speed of light. Sales mushroomed magically. Money could be raised at the snap of a Palm Pilot, and debt could disappear with a partnership. Employees happily grabbed paper instead of paychecks.

Then, Buck tumbled. The full effect of his fall has yet to be understood. Tales of fraud and loose accounting mark the headlines. Red ink stains corporate accounts. And, in many ways, we’d like to think of Buck’s boardroom visit as a bad dream.

It’s tempting this close to events to underestimate the scale of occurrences. Says John Gunn, MBA ’72, president and chief investment officer at Dodge & Cox, San Francisco–based investment managers, “I don’t think people have a proper perspective on what happened in this market. About $8 trillion went to money heaven; so an awful lot of people are saying, ‘I must have been misled.’”

Losses in the U.S. stock market alone equaled nearly a year of national economic output. Savings for retirements and college educations were dashed, and investor confidence was knocked.

The route to recovery demands tough management decisions. It asks for sharp corporate insight as much as national political preoccupation. And company by company, management by management, this is a time when business heads must ask: How can we lead better? What is the route to recovery? And then, What is management for the 21st century?

With such questions in mind, we turned to some of the Stanford Graduate School of Business’s most distinguished graduates for a sampling of thoughts and experiences from the world of the chief executive’s office. The leadership experience of the graduates with whom we spoke totals decades. The alumni come from diverse industries and different interests. Interviews were conducted separately over several weeks. While the views aren’t always in accord, it was agreed that a vital strategic moment is at hand.

There are at least two parts to this problem for CEOs. The first are steps of recovery, boosting troops, and rebuilding the credibility of leadership. Secondly, the lessons of the last few years need to be absorbed and applied to the future.

The immediate problem “is close to a total lack of confidence that investors have in the integrity of the system,” says Richard Kovacevich, MBA ’67, chairman, president, and chief executive of Wells Fargo & Co. “We—we collectively—have to do whatever it takes to restore public confidence so that they can rely on and believe the accuracy of our public reports. What that means is that we’re going to have to do some things that are going to turn out to be excessive—because in order to correct a problem, you usually have to overreact to restore that confidence.”

“Most of us, I think, are appalled and outraged by what has happened,” says Kovacevich, who will be honored with the Ernest C. Arbuckle Award later this month by the Stanford Business School Alumni Association. “We all suspected that there were some bad apples, but obviously the extent of it is far greater and far more extensive than certainly I ever thought.” Nor, in a global era, is this a problem solely for U.S. managers. “Anyone who tells you that these things can’t happen in Europe clearly isn’t talking sense, because if it can happen in America, it can happen anywhere in the world,” warns Rod Eddington, SEP ’91, president and chief executive officer of British Airways PLC.

How dramatic must changes be to restore confidence? Hank McKinnell, Sloan ’66, MBA ’67, PhD ’69, chairman and chief executive officer of Pfizer Inc., contends that substantial progress already has been made. The laws and regulations that have emerged since the stock market boom, McKinnell says, comprise “an historic revision of the framework within which corporate
governance occurs.” What’s needed now, he says, are efforts to educate the public about “exactly what’s expected of a chief executive officer; we need to talk about the principles of ethical corporate management, experience, vision, and foresight.”

That’s a tough order. CEOs, as Jeffrey R. Immelt, chairman and chief executive officer of General Electric Co. and a graduate of Harvard University’s MBA program, lamented recently, “are down there at the bottom of the heap with telemarketers.”

If the 1990s were the time of grand strategies and digital dreams in the chief executive office, the opening years of the 21st century are demanding more nuts-and-bolts work. Trust and integrity are the stuff of details. Directors’ scrutiny of operating issues is more thorough, report CEOs who are Stanford Business School graduates. And that’s an important return to basics. “Ultimately, the buck stops with the CEO,” notes Constance H. Lau, MBA ’79, president and chief executive officer of American Savings Bank in Honolulu. “While we’re supposed to go through all this grand thinking, it is also our responsibility to see that the organization functions properly.”

FRAUD BY THE FEW—be they at Enron, WorldCom, or Global Crossing—has battered employee faith just as it has investor trust. CEOs say they are pressed to reach out more to colleagues. “I guess I’m amazed at the fact that it’s almost impossible to communicate too much,” says Kovacevich of Wells Fargo. And it’s true of companies large and small. Robert Moog, MBA ’84, chairman and president of tiny University Games and AreYouGame.com, says he is paying special attention to support of colleagues by sending missives noting exemplary work. The two closely held San Francisco Bay Area firms jointly employ about 80 people.

CEO themes today often deal with touchy matters far different from the cheerleading “return on investment—all else be damned” swagger of the boom market. Kovacevich focused on ethics, the abstract topic so much on minds across corporate America, in an email to all hands at Wells Fargo. “It’s important we all understand that the honesty, trust, and integrity essential for meeting the highest standards of corporate governance are not just the responsibility of senior management or boards of directors. We all share that responsibility,” he wrote, adding that “corporations don’t have a conscience. People do. Corporate ethics is the sum total of the thousands of ethical decisions all of us make every day.”

Essays on ethics aren’t executives’ usual stock in trade. “This isn’t what you were trained to do,” Kovacevich says. “When I went to Stanford,” he recalls, “I don’t remember people saying that this is where you’re going to be spending time—on these sorts of issues—and these are the courses you should take.”

There are, of course, who stand ready to help—for a fee. Advice on governance and disclosure is a growing business. Standard & Poor’s has launched a corporate governance practice. Rival Moody’s Investors Service has said it is building a similar consulting practice.

“Clearly, there is a healthy skepticism about numbers these days,” says Jack Schuler, MBA ’64, chairman of Stericycle Inc. and Ventana Medical Systems Inc. Schuler says, “Audit committee meetings are completely changed from what they were two years ago, both in terms of length and in terms of detail.” Eddington at British Airways estimates that the audit committee on his board is spending about twice as long on the accounts as it once did.

Lau reports that at American Savings Bank she has taken an activist, inside approach to disclosure. “We have always had internal control systems, but now, in addition to internal controls, we also have brought in disclosure controls, where we require every executive to sit with their operating managers on a continuing basis, but at least every quarter, to talk about the things that would require disclosure but also to talk about emerging issues or even potential issues.” With this approach, she says, “we can be much more anticipatory.”

Disclosure has a hard-nosed advantage—in addition to its moral strength. “It’s not a sense of wanting to change the world or wanting to go to heaven,” Hamid R. Moghadam, MBA ’80, chairman and chief executive officer of San Francisco–based AMB Property Corp., told Fortune magazine, but because “you want to make yourself attractive to the people who supply you with capital.”

Moghadam told Stanford Business, “I think there’s a public trust in my hands and in the hands of the team here to do the best we can and be truthful about what we do. I think the public is willing to forgive us for mistakes that we may make strategically, but they’re not going to forgive anyone more ethical lapses.”

As a founder of the industrial property investment and management company, Moghadam says, “I have never sold a single share of stock. I know—I went to Stanford Business School—that you’re supposed to diversify. But we’re long-term owners of the business—for good or bad…. I think the thing that is going to work best is the brand of the ethical and transparent company, to be the people in the white hats.”

In pursuit of the white hat role, Moghadam has for some time made disclosure a byword. AMB each quarter issues supplementary information with its financial statements that lately have mushroomed to nearly 35 pages from 4 or 5 pages a few years ago. The company expenses its stock options, a much-debated step advocated by reformers. “We did it before Coca-Cola, but no one seems to remember,” Moghadam brags.

AMB has committed to reporting each quarter’s financial results before General Electric—long one of the earliest-reporting companies. AMB now routinely makes its numbers public just one week after the close of quarter and several days before GE. Moghadam says swift reporting is a matter of healthy management. “Frankly, I think that good companies with good systems should be able to close their books quickly,” he says. “The ones that take two months are likely spending that time cooking the books.”

Measures such as faster, more forthright disclosure and better communication go a long way to settle CEOs’ “Step One” concerns for recovery. But “Step Two” is a thicket of nuance and debate. No terrain is more heavily disputed and more subject to foot-dragging than corporate governance and boards of directors.

In an effort to move reluctant companies, the New York Stock Exchange has invoked new standards demanding a majority of independent directors on the boards of all listed companies as well...
as the independence of those on audit committees. “Independence” is itself an oft-abused notion. Directors with a variety of business or family ties to either a company or its management have been deemed “independent” in the past. But, with the new rules, executives at major customers and suppliers are out, for instance.

A survey by McKinsey & Co., the New York–based consulting company, last year suggested that those who sit on corporate boards were well aware of the system’s weaknesses. Some 200 directors, who sat on a total of 500 corporate boards, said more than a quarter of their “independent” colleagues on boards weren’t truly independent. Nearly a third of all directors felt their boards had, at best, an ineffective process for dealing with conflicts of interest. And 41 percent of those surveyed weren’t satisfied with their boards’ oversight of chief financial officers, while 31 percent felt that their boards’ reviews of the CEO weren’t adequate.

The ample awareness of weaknesses and dissatisfaction among directors on boards suggests that other forces—such of those of management and traditional deference to powerful chairmen-directors on boards—make major structural changes hard to achieve.

Stanford CEOs are considering some of the important ideas now being bruited about. But what, if anything, needs to be done? There are differences of opinion, in part along theological lines of free-market forces versus regulation, and doubts about the wisdom of new laws and rules for their own sake. McKinnell of Pfizer argues that legal and regulatory changes to date are sufficient. Gunn of Dodge & Cox contends that market forces are sufficient to punish the foolish and the incompetent. Notes Lau, laws and regulations never entirely suffice. “You never can cover everything in a procedure or system. Directors need a strong moral compass.”

Getting a lot of attention these days is a mechanism used for a decade by Minneapolis-based biomedical firm Medtronic, where

“I think the thing that is going to work best is the brand of the ethical and transparent company, to be the people in the white hats.”
—HAMID R. MOGHADAM, MBA ’80

Schuler is lead director and chairman of the corporate governance committee. “Lead” or “principal” directors are supposed to guide the independent directors by acting as a conduit for opinions. Schuler says he has found the plan a good one. “Ideally, you want to be able to discuss everything publicly in the full board forum. But there may be people unhappy with agenda issues that didn’t come up or how they were handled,” Schuler says, adding that he is approached by fellow directors at least a couple of times before meetings with items for attention.

The concept has gained popularity of late, although grapsed at times with the sudden conviction of a sickbed conversion. Among those who have adopted the structure are General Electric and Houston-based energy marketer Dynegy Inc. and natural gas services provider El Paso Corp.

The notion of separating the positions of chairman of the board and chief executive officer is also gaining increasing attention. Currently, about 75 percent of the companies that make up the Standard & Poor’s 500 Index have a single occupant who bears both titles. Andrew S. Grove, chairman of Intel Corp. but not at the same time its CEO, has said, “The separation of the two jobs goes to the heart of the conception of a corporation.” Grove, a GSB lecturer, has posed this thought: “Is a company a sandbox for the CEO, or is the CEO an employee? If he’s an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?”

British and Canadian practice has long kept the posts separate, which Eddington of British Airways applauds. “I’m chief executive of British Airways,” he notes, but “the board is chaired by a non-executive chairman. I think that’s absolutely right.”

Moghadam, who holds both posts, opposes separation. Generally reform-minded, he argues that “the traditional independent chairman in the British model—all they do is run a very formal meeting process. They see that they enforce Robert’s Rules of Order and put things in legal form. They don’t know enough to make sure the real issues come before the board meeting.” He continues: “The problem, I think—with much of the legislation and these governance issues—is that everyone is trying to solve last year’s problem. The fundamental problem is not what boards of directors are told about; it’s what boards of directors are not told about.”

The fundamental problem is not what boards of directors are told about; it’s what boards of directors are not told about.”
—ROD EDDINGTON, SEP ’91

To maintain track of its CEO, the Medtronic board does a very formal review each year, covering about 15 issues for which each director applies a numerical rating to the CEO’s performance. There are written comments as well. None of this is directly related to compensation review but is intended to keep the board abreast of the head officer’s work. In effect, too, it’s useful training for changes at the top.

“Succession is the heart of it all,” says Schuler. “The board earns its keep—perhaps 30 to 40 percent of its pay—in maneuvering a transition of CEO and selecting a successor.” Like changes at the Kremlin, it brings risk. Market and employee confidence can be won or lost. Boards often are dominated by former CEOs who stay at the directors’ table. At Medtronic, tradition requires that a departing CEO step down from the board.

Law, regulations, and even ritual can’t do it all. In the end, it depends on a relationship of trust—moral people, as Lau notes, acting frankly and in good faith. Most revolutionary theories of corporate governance are within the power of most boards to enact. Yet, they have avoided them. Instead, staggered boards, golden parachutes, and other legal defenses dating from anti-takeover provisions invoked since the late 1990s have, in many cases, further sheltered boards from the people they represent—the shareholders.

Can the gap between boardroom and shareholder be narrowed? The future must be loose enough to allow innovation, says McKinnell. And, if there is to be a future, notes Schuler, CEOs and the boards they serve must keep a clear eye on the course. “If they don’t realize that 80 percent of their conversation has to be about strategies—on products, on customers, on employees and management—then they’re missing the boat.” After all, he adds, “a great audit committee does not ensure a great company; although a great company needs a fine audit committee.”
Hau Lee Honored for Service to Alumni

Hau Lee designs global supply chains and also acts a bit like one himself, linking alumni/aes with e-business, manufacturing, and distribution logistical issues around the world. That is why the Stanford Business School Alumni Association chose Lee to receive its 2002 Jaedicke Silver Apple Award for service to the association.

Lee, the Thoma Professor of Operations, Information, and Technology, is also director of the Stanford Global Supply Chain Management Forum, director of the gsb Executive Education program Managing Your Supply Chain for Global Competitiveness, and editor-in-chief of the journal Management Science. He was presented with the Tiffany apple at the Business School’s 43rd annual Alumni Weekend.

In his acceptance speech, Lee noted that he has talked with alums over barbecue in Brazil, on the riverfront of Shanghai, and at Hobee’s in Palo Alto. “Alumni are at the beginning and end and every stage of my research,” he said. “I benefit tremendously from their knowledge, experiences, resources, and networks.”

When Jack McDonald started teaching his investment course at the Business School, the Dow stood at 777 and the Nasdaq did not yet exist. When the first students enrolled in Jim Van Horne’s Money and Capital Markets course, Lyndon B. Johnson was president of the United States.

Between them, Van Horne and McDonald estimate they have taught over 12,000 students over the past 37 years as the two most enduring members of the finance faculty. Van Horne, the A. P. Giannini Professor of Banking and Finance, first taught Money and Capital Markets in 1965. Today “the markets have changed drastically,” he said. “It would be hard to come up with more than 5 percent overlap between what I was teaching then and what I teach today.”

McDonald, now the 189 Professor of Finance, offered his first section of Investment in 1968. Although the content has changed, McDonald taught the same topic for 35 years.

In 1976, Business School Dean Arjay Miller introduced McDonald to a friend of his—Warren Buffett. For more than a quarter century, the chairman of Berkshire Hathaway has been one of a string of business leaders who have taken part in case discussions in McDonald’s classroom. “Warren Buffett’s stock was $60 a share the first time he came,” McDonald recalled. “In November it was $72,000. Students have always thought it was too late to invest.”

What has changed? Market structures, including the emergence of Silicon Valley and the venture capital and private equity markets. The classroom environment also has evolved. In 1968, McDonald’s assistant couldn’t get 68 copies of the assignment ready in time using a ditto master process. In the fall of 2000, he began experimenting with using video to expand the number of students who could enroll.

One thing that has remained steady, McDonald says, is the use of classic texts: The Intelligent Investor, by Benjamin Graham; Common Stocks and Uncommon Profits, by Philip A. Fisher; and Extraordinary Popular Delusions and the Madness of Crowds, published in 1841 by Charles Mackay.

A authored by Business School Professor Evan Porteus, the recently published Foundations of Stochastic Inventory Theory is both an advanced textbook designed to prepare doctoral students to do research on the mathematical foundations of inventory theory and a reference work for those already engaged in such research.

Porteus, the Sanwa Bank Ltd. Professor of Management Science, describes foundational concepts, methods, and tools that prepare the reader to analyze inventory problems in which uncertainty plays a key role. All 14 chapters in the book and four of the 5 appendixes conclude with exercises that either solidify or extend the concepts introduced. Some of these exercises have served as PhD qualifying examination questions in the operations, information, and technology area at the Business School. The book is published by Stanford University Press.

Porteus, who is also director of the School’s doctoral program, has focused his academic work on technological systems as a member of the operations, information, and technology faculty. The field concentrates on the coordinated function of technology, people, and operating procedures in the execution of ongoing tasks.

He was elected in late 2002 as a fellow of the Manufacturing and Service Operations Management Society. The selection recognizes outstanding research and scholarship in operations management. The society is part of the Institute for Operations Research and Management Sciences (INFORMS) which represents professionals in the fields of operations research and the management sciences.

At a ceremony in Germany’s Nuremberg Castle on Oct. 31, Paul Romer accepted the prestigious Horst Claus Recktenwald Prize in Economics for outstanding achievement and contributions to the field of economics.

The relatively new honor, accompanied by a €25,000 cash prize, is among the
world’s highest accolades for academic economists. Romer is the fourth recipient of the award, which is conferred every two years and financed by a foundation established in 1993 by Hertha Recktenwald, the widow of the internationally known economist for whom the prize is named.

Romer, who is the stanco 25 Professor of Economics at the Business School and a senior fellow at the Hoover Institution, was selected by a committee of internationally recognized scholars who cited the outstanding quality of his contributions to the development of “endogenous growth theory” or “new growth theory.” This body of work began with his 1983 doctoral thesis. Romer makes two basic points: that economic growth is driven by new ideas and advances in technology, and by creating appropriate economic incentives, government can increase the trend rate of growth in a way that can make all citizens better off. Prior to his theory, economists assumed economic growth in a physical world was constrained by diminishing returns and scarcity of resources, and the only offsetting force—serendipitous discovery—could not be understood using standard economic theory.

In the classroom, Romer is contributing to the understanding of economics. He recently cofounded Aplia, a Web-based publisher of teaching materials and interactive lessons for colleges. Its first product, Principles of Microeconomics, was introduced this fall to approximately 8,000 students in 1,277 colleges and universities. The company offers Web-based tools and content for professors teaching economics courses, including market experiments where students trade with each other in real time and machine-scored homework assignments with graphs that students create and modify.

The American Sociological Association has honored Martin Ruef, assistant professor of strategic management, for coauthoring the best book in the preceding two years in medical sociology.

Published in 2000, Institutional Change and Healthcare Organizations: From Professional Dominance to Managed Care, is based on research conducted by a team led by Stanford sociologist W. Richard Scott. It describes changes in the health care systems of the San Francisco Bay Area over 50 years and relates those to changes in basic demography, values, and beliefs at the national, state, and local levels.
CEO Hubris Distorts Investment Decisions

In the past decade, economists have begun to flirt with the possibility that we do not live in a perfect world in which people make decisions consistently, rationally, and systematically. Slowly but surely, they are beginning to acknowledge that most of us do all sorts of illogical and idiosyncratic things—and that by studying such irrational behavior we can actually learn a tremendous amount about how markets really function.

With the awarding of the Nobel Prize in economics last October to psychologist Daniel Kahneman and economist Vernon Smith, psychology and economics fields have at last firmly tied the knot. Their love child—behavioral economics—is now a hot research topic.

One of the groundbreaking scholars in this arena is the School’s assistant professor of finance Ulrike Malmendier. Her recent study on how hubris affects CEOs’ corporate investment decisions is one of the first to apply research on individual behavior to corporate settings.

Malmendier has found that CEOs who are overconfident—that is, those who overestimate their ability to generate value within the company—systematically make distorted decisions about when, how, and how much to invest in new projects. One of the major contributions of the study, which she coauthored with Harvard doctoral student Geoffrey Tate, is that it translates fuzzy behavioral concepts into measurable, empirically testable phenomena.

Malmendier was able to devise a clever measure for overconfidence: the tendency of a CEO to overly invest in his own company by habitually buying its stock or by holding on to stock options long beyond the point when they should be exercised. “These CEOs tend to think that under their glorious leadership the stock prices will keep going up, so they keep holding on to their shares and their options,” Malmendier explains.

Looking at data on CEOs of 477 Fortune 500 companies for the years 1980 to 1994, she determined those CEOs who held on to their stock options beyond the fifth year and who were at least 67 percent in the money were overconfident. She also classified as overconfident CEOs who did not exercise their options until expiration.

“What the CEO does with his own money is really the telling indicator about overconfidence,” Malmendier says. “It’s a much more accurate measure than whether, say, he boasts in the media or to investors about how strong his company is. That could all be show.”

The study related the overconfidence bias to distortions in corporate investment decisions that seem to be a regular part of the business landscape—particularly the fact that managers sometimes restrict external financing to fund new projects and rely instead on their company’s own internal cash flow. Some studies have tried to justify managers’ reluctance to go to the capital market by stating that the markets never have quite enough information about a given company to value its stock properly. Malmendier’s study is the first to identify CEO behavior as the factor behind this phenomenon.

“Overconfident CEOs think their investment projects are greater than they actually are. They don’t want to go to the outside equity market and issue more shares for their projects because they think the market will unfairly undervalue the stock. Often, however, the market is in fact accurately perceiving the reality of the situation, it’s just that the CEO is overly optimistic,” says Malmendier. “These CEOs therefore tend to rely on their own available funds for growth and expansion projects. They end up making investment decisions not on the quality of their projects—which is what a wise CEO would do—but rather on how much cash flow they have available.”

A typical CEO will invest 19 percent of available marginal cash flow in investment projects, the study found, but an overconfident CEO will invest 36 percent. “Those with a lot of available cash therefore end up investing in many projects that they shouldn’t,” says Malmendier.

As the recent WorldCom scandal demonstrated, inflated investment decisions can harm a company. But Malmendier cautions that overconfidence is not necessarily a bad trait. “We can’t really say anything conclusive about the net effect of overconfidence in this study, because sometimes it is good in business,” she says. “The overconfident CEO can also inspire and push his employees to do great things.”

The study has implications for corporate governance, however. “CEOs who are overly convinced about their
own leadership capabilities are not actively trying to get rich at shareholders’ expense; they’re just miscalcilitating the situation,” she explains. “So giving them more stocks and options as an incentive to increase shareholder value is not going to help; it’s just going to perpetuate their distorted behavior.”

Malmendier suggests instead that company boards become involved in the affairs of the organization more actively and more frequently. “The CEO should have to consult with the board before he goes ahead with large investment projects, even if they are financed internally. That’s what should be going on,” she concludes.

—MARGERITE RIGOGLIOSO

“CEO Overconfidence and Corporate Investment,” Ulrike Malmendier and Geoffrey Tate, manuscript, October 2002


Out of Step … Out of Congress

In 1994, MARJORIE MARGOLIES-MEZVINSKY, a freshman Democrat representing Pennsylvania’s 13th Congressional District, cast the deciding “yes” vote on President Clinton’s budget. Figuring that tax-averse voters in her suburban district would be angry, delighted Republican congressmen sang, “Goodbye, Marjorie,” in the well of the House. They were right. The liberal Democrat was swept away in the Gingrich revolution later that year. Margolies-Mezvinsky had plenty of company in that election. More than 40 incumbent Democrats lost their seats.

Twelve years earlier, the reverse had occurred: Nearly two dozen Republican House members lost their seats despite the enormous popularity of President Ronald Reagan. What explains the heavy losses by incumbents in those mid-term elections? Were those elections anomalies, or are there lessons that can be applied to the analysis of future elections and, perhaps more important, the behavior of our elected officials?

Research by three Stanford scholars who analyzed the results of more than 6,500 congressional races held between 1956 and 1996 suggests that there is an important lesson: Popular and even scholarly opinion that the public does not hold members of Congress accountable for their votes is wrong.

Moreover, the researchers found, voting with the ideological extremes of his or her party can greatly decrease an incumbent representative’s reelection prospects.

Incumbent representatives like Margolies-Mezvinsky, who support their party’s sitting president by voting for programs seen as extreme in their districts, are often punished by their constituents.

The research was conducted by GSB Professor David W. Brady; Hoover Fellow John Cogan; and Brandice Canes-Wrone, a former Stanford graduate student, now on the Massachusetts Institute of Technology faculty.

The researchers scored congressional voting records by using the Americans for Democratic Action (ADA) report cards, which reflect the proportion of liberal positions taken by a member in a given year on key votes (taxes, budget, abortion, school prayer, etc.) selected by the ADA. Relative liberalism and conservatism of districts were measured by using presidential voting patterns and demographic data. The researchers controlled for factors such as challenger quality, incumbent and challenger spending, control of the White House, and the condition of the economy.

“For at least two decades, scholars have believed that the dominant factor in congressional elections was incumbency,” Brady said. In fact, earlier studies suggested that “the typical representative might be able to vote on legislative matters as she pleased without fearing that she could lose reelection.”

But politicians, Brady notes, “were ahead of the scholars.” He recounts a remark made by then-Congressman Lyndon Johnson explaining why he refused to vote for a civil rights proposal by President Franklin D. Roosevelt. “You can only go so far in Texas … there’s nothing more useless to the Democrats than a dead liberal,” the future president said.

Johnson grasped what the scholars didn’t: Voters notice how their representatives vote on key issues and act accordingly. Certainly this flies in the face of conventional wisdom that most of us are ignorant of what actually happens in Congress. How do voters find out? Brady isn’t sure and says the question could be the basis for future research.

But the tie between voting records and prospects for reelection is much clearer. Democrats who move too far to the left in conservative or moderate districts tend to lose their seats; Republicans who move too far to the right also lose. And incumbent presidents who pull House members to either extreme often lose seats for their party.

By the same token, representatives from very liberal districts, for example Barbara Lee in Berkeley and Oakland, Calif., or conservatives like Tom DeLay of Texas, are most likely safe because their “extremism” mirrors that of their constituents.

If these researchers are correct when they conclude that we do hold our representatives accountable, a hope expressed by James Madison in the Federalist Papers may have come to pass:

“It is particularly essential that [the House of Representatives] should have an immediate dependence on, and intimate sympathy with, the people,” Madison wrote. “Frequent elections are unquestionably the only policy by which this dependence sympathy can be effectively secured.”

—BILL SNYDER

For at least two decades, scholars have believed that the dominant factor in congressional elections was incumbency.


Political Science

STANFORD BUSINESS FEBRUARY 2003 29
The debate around the passage of the Civil Rights Act of 1991 (CRA91) was heated and relentless. Many opponents claimed the bill would lead companies to hire people to fill racial and gender quotas, while proponents argued it would open opportunities to women and minorities in businesses that traditionally had been unwelcoming. The debate lasted into the 1992 presidential campaign, and still in 1994, conservatives who had served under the Reagan and Bush administrations justified their earlier attacks on the bill in a series of law review articles that presented CRA91 as both quota legislation and a lawyer’s bonanza. The bonanza claim was based on the fact that the law greatly increased the potential penalties and legal costs of firms accused of dismissing employees on the basis of race or gender.

Now, two economists have analyzed industry hiring practices and related legal costs before and after CRA91. Paul Oyer, associate professor of economics at the gsb, and Scott Schaefer of the Kellogg School at Northwestern University, provide evidence that the law had the opposite of a quota effect: It stopped and perhaps reversed the trend during the 1970s and 1980s toward industries becoming more integrated along race and gender lines. “The evidence,” says Oyer, who specializes in human resource issues, “is consistent with firms thinking that the easiest way to avoid a lawsuit is not to hire certain protected workers.”

A protected worker who was fired in 1990 might be able to bring a case asking for $50,000 to $100,000 in legal damages. That same worker had a $200,000 to $400,000 case in 1992, Oyer says. “CRA91 increased the costs of employing any individual protected worker because it increased expected legal costs. However, an additional protected worker has an offsetting benefit of making it more difficult for other employees to sue. The more diverse a firm is, the more difficult it is to successfully sue that firm,” Oyer says. This is the reasoning used by those who predicted the law would lead to hiring “by quota.”

The study was based on protected worker employment data from the 1988–96 Annual Demographic File of the Current Population Survey at the industry level, which the researchers divided into three timeframes—a historical sample from 1983 to 1986, a pre-CRA91 sample from 1988 to 1991, and a post-CRA91 sample from 1993 to 1996. Oyer and Schaefer looked at the most segregated and the most integrated industries from the pre-CRA91 sample to the post-CRA91 sample to see if they moved toward each other in terms of the levels of integration, as one would expect in a world of hiring by quota, or if they strayed farther apart, which would suggest that the law was sorting industries into those who hire protected workers and those who don’t. Their analysis suggests that the sorting effect was stronger than the quota effect.

“Before CRA91, black and female employment shares had been increasing in industries in which those groups had been least represented, such as chiropractic offices, vehicle dealerships, and metal mining for black employees; and logging, railroads, and construction for women, and inter-industry variation in protected-worker employment shares had been on the decline,” says Oyer. “Both trends ended after the act.” Black and female employees continued to be sorted into stereotypical sectors: Blacks were most represented in household service, bus and urban transit, taxi service, and fabric mills; women in day care, household service, beauty shops, nursing homes, and libraries.

“The benefits so obviously overwhelmed the costs that no credible person would say that the Civil Rights Act of 1964 was a bad idea,” Oyer says, “but the jury is still out on CRA91.” On the positive side, the law raises the costs of being an “old school” employer. It should encourage firms to make investments in training managers to act in a way that is perceived as nondiscrimi-
People Prefer Inflation To Prospect of Job Loss

Whether it’s in Denmark, Greece, or the United States, being able to get a job is more important than stable prices to people’s sense of satisfaction and happiness. So says research on the effects of inflation and unemployment by Justin Wolfers, assistant professor of political economy at the Stanford Graduate School of Business.

Traditionally, economists have reasoned that the downside of a recession should be largely offset by the upside of a boom. However, as far as personal well-being is concerned, Wolfers shows, the highs of a boom do not compensate for the blues of a bust. “The happiness destroyed by a recession is much greater than the happiness created by the boom,” he explains; “Recessions really hurt, and governments and their central banks need to be aware of the importance of this tradeoff.”

We will never know for sure what would have happened in the absence of cra1991, Oyer says. “We can safely say, though, that it did not have a quota effect. And there is no evidence that it helped integrate industries that had employed relatively few protected workers.”


Limiting the magnitude of business cycles has been a concern of macroeconomics, but there has been relatively little work to quantify the effects of economic cycles on people’s sense of well-being and security, says Wolfers, formerly an economist at the Reserve Bank of Australia. “The conventional ‘misery index’ is inflation plus unemployment,” he notes. “Implicit in that index is the view that inflation and unemployment are equally important.”

His findings, based on analysis of over half a million individual surveys, show, however, that unemployment outweighs inflation by a ratio of five to one when it comes to a sense of personal well-being. In other words, the unemployment rate rising 1 percentage point causes as much misery as the rate of inflation rising 5 points.

Wolfers suggests that the prospect of joblessness causes much more insecurity among both the employed and unemployed than do rising prices. Examining more detailed data on psychological well-being from the United Kingdom, he finds “high unemployment in a region lowers average feelings of usefulness, confidence, and happiness and raises depression and feelings of worthlessness.”

Moreover, Wolfers has found, people are also averse to fluctuations in the unemployment rate. Throughout the ordinary business cycle, the unemployment rate rises and falls by around 2 percentage points. If these fluctuations were eliminated, the ensuing feeling of well-being would be equivalent to that gained from permanently lowering the unemployment rate by a quarter of a percentage point, his analysis shows.

“Part of this surely reflects human psychology and our tendency to internalize our successes but externalize our failures,” he notes. But there is also some basic economics at play. “Those who are hired during the peak of the boom may be less committed to the job market,” he notes, “while those who are fired during a recession may be highly motivated workers.”

Wolfers’ study also looks at the effects of the business cycle on people’s trust. Not surprisingly, recessions lead to a loss of faith in government. But beyond this, people also appear to lose faith in both the corporate and banking sectors. Wolfers suggests that the seeds of the current backlash against corporate America may lie in the recession of 2002. “If you really care about the institution of capitalism,” he says, “you would think recessions are a really bad thing.”

In terms of economic policy, Wolfers suggests that keeping inflation rates at rock bottom may not be as important as stabilizing unemployment rates—even though the effects of inflation are often permanent and unemployment transitory. “The policy conclusion is that Alan Greenspan should keep an eye on both inflation and unemployment,” he says. “Keep unemployment stable—if inflation’s a little more unstable, the cost may be worth it.”


“Stabilization Policy: Why and How?” and an article is forthcoming in the journal International Finance.

Unemployment outweighs inflation by a ratio of five to one when it comes to a sense of personal well-being.
Stay-home Husbands Blaze New Trail

When his seventh-grade daughter first learned that Steve Sueltz, MBA ’79, was planning to become the family’s home-maker, she was aghast. “What will I tell people you do?” she asked. “Now her grades have improved, her spirit is back, and Steve is a hit with her classmates.

Steve Sueltz, MBA ’79, is a Sun Microsystems EVP. His wife Pat, a vice president at Sun, has found they were making one of their daughters miserable by working long hours. Something had to give. In another article, BusinessWeek focused on highly educated women who “stop out” to care for children. Said Sharon Hoffman, MBA ’91, director of the Business School’s MBA Program: “Women are realizing it’s impossible for a human being to have it all. You can have it sequentially but not concurrently.”

Ethics Messages from Today’s News

Ethics is a hot topic in business and law schools again, but student interest likely will wane as it does for almost every subject, academics told the San Francisco Business Times. When a topic is in the news every day, there is always more interest in courses covering related material, they said. But there is also frustration, said GS Professor James Baron, because of the limited depth of information. “What I tell my students is we may never know the whole truth about Enron. It’s such a complex thing.”

David Kreps, the Business School’s senior associate dean, told the newspaper that recent events allowed professors to “hammer home two important messages: Even if one stays within the letter of the law … pushing the envelope in violation of the spirit of the law is viewed as unethical generally by society. [And] if you get caught doing this, the consequences can be severe.”

Credit Risk Revised

Both bad debts and earnings are on the rise at Capital One, the nation’s sixth largest credit card company, where CEO Richard Fairbank, MBA ’81, bought out rivals over the past year in the high-risk, subprime credit card market. Investors are nervous about the rising level of bad debts, BusinessWeek reported, but Fairbank insists the tradeoff is what he expected: more charge-offs for higher profits. The company has its own proprietary data-mining techniques that it uses to set interest rates and credit limits on individuals’ credit. The magazine said some analysts are also worried that Capital One profits might suffer if banking regulators decide to limit late fees and over-the-limit charges on credit cards.

A Spot for Sun?

Investors in Sun Microsystems value a share at less than they’d pay for a slice of pizza, BusinessWeek observed in a November cover story on Scott McNealy’s plans for rebuilding the 20-year-old company, which is facing new competition for its high-end computer hardware products. McNealy, MBA ’80, is pouring research dollars into network software, with the goal of having Sun servers run virtually free of human attention, a strategy the magazine called risky and bold. With layoffs and other cost-cutting, McNealy has said the company can break even by

Sun Microsystems’ Scott McNealy, MBA ’80, is investing heavily in research on network software. The second quarter. In the longer run, the magazine predicts, Sun will “settle into a specialty niche, providing high-margin servers with all the bells and whistles built in, a path similar to the one trod by Apple Computer in the consumer market.”

Team’s In, Ego Out

Ego is out, timexes are in at Kimberly-Clark Corp., where Tom Falk, Sloan ’89, has become CEO and is slated to become chairman this month, according to the Milwaukee Journal Sentinel. Outgoing chairman/CEO Wayne Sanders told the newspaper that the 64,000-employee company has a meritocratic culture that requires finding leadership within the company teams have easily replaced the ego-driven star system. Sanders said, because of his talent and team-oriented style.
Executives who appear self interested do not fit in well at Kimberly-Clark, he said. In 1990, Falk crafted a complex divestiture of a newsprint operation that involved transferring ownership to the subsidiary’s employees, and he was integral in the company’s $9.4 billion acquisition of rival Scott Paper.

“A big part of what has made our company successful is there isn’t a lot of ego,” Falk told the newspaper. “You’ve got to be able to drop your ego and any other pretensions you might have.” According to colleagues, Falk drives a 2002 Corvette but he counters that image by wearing a $29 Timex.

Signed with Surety

“WE HAD NO HESITATION WHATSOEVER,” Hank McKinnell, CEO of Pfizer, told Fortune about signing his John Hancock to certify the company’s financial statements last August under a new U.S. law that requires top executives to swear to their accuracy, as well as the accuracy of their accountants. McKinnell, Sloan ’66, MBA ’67, PhD ’69, gathered 15 people for a two-hour examination of a year’s worth of financial statements—filling 300-page binders—the day before the signatures were due. McKinnell didn’t fret, the magazine said, because his pharmaceutical company “doesn’t report pro forma earnings, doesn’t pay auditors for consulting work, maintains a 15-person governance department, and is regularly praised for the independence of its board.”

Hank McKinnell, CEO of Pfizer

I’ll Trade You Two Suttons for a...

AMERICANS LOVE TO rank everything from hot dogs to business schools, but it is even better if you can express your opinions on trading cards. That must be the philosophy behind Business 2.0’s decision to print management guru trading cards for the second year in a row. The eight icons chosen for the 2002 cards include GB and Engineering School Professor Robert Sutton, nicknamed the “idea machine” for his book Weird Ideas That Work, and Debra Meyerson, PhD ’89, now a Stanford education school professor, nicknamed “genteel rabble-rouser” for her 2001 book, Tempered Radicals (see November 2001 Stanford Business). The 2002 “Most Valuable Player” honor was given to Jim Collins, MBA ’83, for his bestselling book Good to Great: Why Some Companies Make the Leap ... and Others Don’t.

The Babe Ruth of this cult is none other than the legendary consultant Niccolo Machiavelli.

Smart Locks Make for Tight Ships

MORE STRINGENT U.S. security requirements are behind the development of “smart locks” for cargo that will be shipped through ports, Business School Professor Hau Lee told the South China Morning Post.

Long-distance shippers will be able to speed through security checks in the long run, Lee told the Post, by using disposable locks, costing “a few dollars,” that will have computer chips showing the containers’ contents and programmed at the source. The information will be relayed via the Internet to the recipient. “If there is a breach, you stop the box as soon as possible. If the breach is that some unauthorized person gained access at the factory, you don’t put it on the boat.” Shippers and ports who are quick to adopt the technology and make

Business 2.0 magazine featured several GB personalities on their technology trading cards. —

Pills and Profits

IMPOTENCE DRUGS are potent in the marketplace, according to Bloomberg.com, which reported in October a setback for GlaxoSmithKline PLC because release of the company’s impotence drug, Levitra, was delayed for more testing. Jean-Pierre Garnier, MBA ’74, the CEO of Glaxo, had hoped to use the partnership he had formed with Bayer AG to take on his biggest competitor, Pfizer, the maker of the anti-impotency drug Viagra. “Now Glaxo may be left behind as

Pfizer gets even bigger with its acquisition of Pharmacia Corp.,” Bloomberg said. Still, Garnier has reduced costs by more than $1.1 billion since he took over in 2000, the news agency said, and he has a “successful record of getting products through the U.S. Food and Drug Administration.” That agency approved a new extended release version of Augmentin, an antibiotic that is Glaxo’s second best-selling drug, in September.

Finance for Couples

MBAS MAY BRING a sophisticated understanding of finance to a marriage, but that doesn’t mean they won’t have money conflicts if two marry each other. Brandy and Lara Thomas, both MBA ’93, couldn’t agree to move from Arlington, Va., to a more expensive home in McLean, Va., Brandy told the Baltimore Sun. “We discussed this every way possible and daily,” he said. “It was something I always wanted. But she liked stability. Moving for her was a hard thing.”

The Internet entrepreneur eventually persuaded his wife, Lara, of PricewaterhouseCoopers to make the move. Finance counselors told the newspaper many marital disagreements about money are really about feelings of security, power, control, self-esteem, and freedom that are tied to money. ■
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Jan Sherman, MBA ’95

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FEBRUARY

FEBRUARY 19: Arbuckle Award Dinner. Contact divem_claudia@gsb.stanford.edu

FEBRUARY 22: Conference on Entrepreneurship. Contact simmons_diana@gsb.stanford.edu

FEBRUARY 26: “Responding to Bioterrorism,” Professor Lawrence Wein, Lifelong Learning Faculty Seminar Series. Contact richter_erica@gsb.stanford.edu

MARCH

MARCH 1: GSB Women’s Conference. Contact moore_laura@gsb.stanford.edu

MARCH 5: Cool Products Expo. Contact beg_peter@gsb.stanford.edu


MARCH 8: The Business of Education Conference. Contact ashton_matt@gsb.stanford.edu

MARCH 12: South Asia Economic Forum. Contact jam_amit@gsb.stanford.edu

MARCH 18–19: Alumni Conference in Paris. Contact moore_laura@gsb.stanford.edu

APRIL

APRIL 5: Future of Content Conference. Contact突然@ suddenly@gsb.stanford.edu

APRIL 6: Jerry I. Porras Latino Leadership Banquet. Contact duman_zoba@gsb.stanford.edu

APRIL 27–MAY 1: Executive program “Strategic Uses of Information Technology.”

MAY

MAY 2–3: MBA Class Reunions for ’91, ’94, ’97, ’98. Contact brown_jane@gsb.stanford.edu

MAY 4–9: Executive program “Finance and Accounting for the Non-Financial Executive.”

MAY 21: Alumni/e Dinner, Union League Club, New York. Contact moore_laura@gsb.stanford.edu

MAY 27, 29, JUNE 2: Executive Forums on Supply Chain Management with Professor Hau Lee, Tokyo (May 27); Beijing (May 29); Shanghai (June 2). Contact divem_claudia@gsb.stanford.edu

MAY 28–31: “Corporate Governance Executive Program.”

FUTURE EVENTS

JUNE 14–15: Commencement.


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

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For additional information, please contact Summer Belloni at 650.725.2471, or belloni_summer@gsb.stanford.edu