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Don’t be the only jogger on the trail without a Business School hat.

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Rethinking Community Service

Career and volunteer goals, like oil and water, don’t mix. I learned that lesson in the early seventies as a green newspaper reporter working for a company whose managers felt journalists should report their volunteer activities to the HR department. Political activism was on the rise then, and the managers said they feared assigning writers to stories where they might show favoritism to personal community involvements. Even if we didn’t show bias, they said, they wanted to avoid the appearance of conflicts of interest.

We reporters were appalled. After all, wasn’t volunteering a private matter as sacrosanct as the secret ballot? Most of us had felt pressure from organizations seeking favorable publicity, and we knew it was not always easy to say no, but we were not about to register our involvements with our employer. Our union fought the registration plan and won, but for me the battle left a permanent mark: I stopped joining organizations. My volunteer activities from then on were strictly informal neighborly acts or faceless monetary contributions.

These days we hear a lot about philanthropy in the for-profit workplace. The concept still sounds strange to me, but some of the Business School’s alumni/ae are persuasive advocates for joint employer/employee community investments that go well beyond workplace solicitations for the United Way. In 2002, Liz Kao, MBA ’01, wrote me that she joined Salesforce.com partly because that software company promotes what it calls “compassionate capitalism” by donating 1 percent of profits, 1 percent of equity, and 1 percent of employee time to charitable actions in the community. Kao, who began her workplace volunteering by helping kids with digital photography and recording projects, says now those volunteer hours have “enhanced my productivity by providing a refreshing break from the usual patterns of a work week and by reminding me to keep work and life in perspective.”

On pages 24–26, Steve Knaebel, MBA ’69, relates his experience starting a company foundation for a division of Cummins Inc. in a large Mexican city. He began the foundation to tackle community problems but discovered the beneficiaries included his own employees and company. Community projects proved to be great “leadership laboratories.”

Experience has taught me great satisfaction can be gained from ad hoc efforts to lend a helping hand now and then. I’ve also been employed by nonprofits and shared the excitement of team successes. Knaebel and Kao force me to see that there are other models for how to meld one’s work for pay and work for community. Our feature on alumni/ae involved in microfinance, page 18, demonstrates other approaches our readers are taking. We try to help you share experiences like these with each other.
Dealing with Cheaters

WITH ALL DUE RESPECT to the ethic lament of University of Santa Clara Professor Kirk Hanson, MBA ’71 [in the August issue], let me suggest that America has always been a winner-take-all society, and that cheating has worked all too often. There has been further erosion of ethics in the last half-century, but the stink has always been there, and further putrefaction is inevitable as long as, to be sickeningly trite, the benefits outweigh the costs.

Invoking spiritual crisis and ineffective parenting is not at all unreasonable, but unfortunately these conditions are incurable in the short run with any known remedies.

Blaming it on the media is right on. ...We should blame everything on the media, whether they deserve it or not. It’s a relatively unassailable and popular position. Competitive capitalism a catalyst for cheating? The communists, socialists, taosists, Marxists, imperialists, whatists didn’t cheat?

Meaningful change happens only following cataclysmic events. Maybe the seismic eruptions of moral turpitude in the business world, in churches, and many of our “professions” will continue to get the attention they deserve (by the media we apparently despise). With a bit of luck, the righteous indignation of the likes of Eliot Spitzer will catch fire and we, the people, will demand change.

Write more explicit laws, take enforcement seriously, protect/reward whistle-blowers, continue lowering the boom on the cheaters, and we just might have a chance to tidy things up a bit. Will cheating disappear? Never. There are always those who will endeavor to beat the system, and those occasionally include our “best and brightest.” Does teaching ethics in business school help? I think a better solution would be to have each student spend a couple of days in San Quentin ... maybe discussing net present value with [someone like] Charles Manson.

—JIM NOYES, MBA ’74
Wheaton, Ill.

IN THE ARTICLE “Who Says Cheaters Never Win?” Kirk Hanson asks: “How might I have better prepared our graduates to live in a world that says in so many ways that it is worth cheating to get ahead. And how do you and I prepare ourselves to resist that message in the years ahead.”

My wife and I have an ongoing ritual that reminds me somewhat of the movie Meet the Fockers. The father (played by Dustin Hoffman) shows the Focker Wall of Fame, where they celebrate the seventh place ribbon of their son (played by Ben Stiller) and other less than stellar performances. We call our ritual “Celebrating the Process.”

Whenever we go through a milestone experience, we celebrate, even if the outcome is not what we desire. We have celebrated difficult times by going out to dinner, with a weekend trip, or by making a special purchase. This included the ending of a job, interviews that did not result in job offers, and nearly 10 years of unsuccessful fertility treatments. Of course, we celebrated the successful events in the same manner: a new job, my wife’s pregnancy and birth of our son (now 9 months old), graduations, etc. By “Celebrating the Process” we celebrate the...
life we have, knowing that sometimes there are setbacks. And maybe by not placing such emphasis on the outcomes, we have insulated ourselves from the temptation to take an easier path. We will try to model this value to our son.

— CAM PIATT,
PEPPERDINE UNIV. MBA ’91
Westerville, Ohio

[kirk hanson’s] excellent essay brings to mind Michael Josephson and his occasional “Character Counts” minutes, between commercials, on KNX Radio in Los Angeles. He deals with mundane items, yet their consideration has broader impact.

In our society of pervasive excess, perhaps repeated reminders that many of our choices have ethical implications may be salutary beyond initial expectation.

To that end, what about designing a periodic presentation and syndicating it for national distribution?

— LEW HASTINGS, MBA ’40
La Cañada, Calif.

Why I Vote

JONATHAN BENDOR et al. in the May issue article “The Logical Illogic of Casting Your Vote” are far from understanding why people vote. It should be obvious some need is met. I suspect the high turnout (by U.S. standards) in the recent Iraqi elections was due to a novelty factor. In this country, in small towns and even in some precincts in larger communities, voting is a social event for the voters that meets a need for social interaction. Would it be naive to suggest voters might also feel some satisfaction in performing a duty or taking advantage of a privilege?

Personally, I try to vote in even the most seemingly inconsequential election because, in that way, I “purchase” the right to be critical of elected officials. If I don’t vote, I haven’t purchased the right. I developed this long-term spending plan after discovering that the most virulent critic of all politicians and all things governmental that I knew had never voted in their life, nor had his wife. Sorry, Prof. B. Just call me irrational.

— NICK DAVIS, MBA ’72
Lawrence, Kan.

Racial Stereotyping

THE RESEARCH OF Brian Lowery, assistant professor of organizational behavior [reported by Marguerite Rigoglioso in “Role Models Counter Subliminal Racism,” August issue], may be needed to confirm what is generally known and accepted. What I found most intriguing is that Professor Lowery’s work has been expanded to “live settings such as the juvenile justice system.”

Ironically, it may be that the stereotyping he is researching is the source of most juveniles in the justice system. The problem is the unjust entry of large percentages of youths of color into a system where they may remain forever. I am not sure how his research will result in improvement in the selection, evaluation, and disciplining of law enforcement officers, from whom all sectors of society should be protected.

— HENRY ORGAN, AB CLASS OF ’63
STANFORD STAFF EMERITUS
Menlo Park, Calif.
How I discovered the world: I was born in Jamaica but quickly learned that the world was bigger than our little island. For fun, I would read the encyclopedia, and my parents, a biologist and a chemist, would tell inspiring stories of faraway places during Jamaica’s then-too-frequent power outages.

An experience that changed my life: Moving to the Chicago area when I was nine really opened my eyes. I saw the enormous difference between the standard of living in my new home and the island of my birth. I became determined to understand the causes of that difference and to do something about it.

What prepared me to study economics: Football. I was a reserve wide receiver at the University of North Carolina at Chapel Hill. The rigors of playing college football helped me develop the mental toughness I needed to learn micro- and macroeconomics.

My current mission: As an associate professor of economics and part of the Center for Global Business and the Economy, I continue to ask tough questions about the role of economic policy in emerging markets: How far can the invisible hand of the market go in helping to raise living standards? What can governments do to support markets? How can businesses benefit from and contribute to the process of economic development?

What I tell my students: That in addition to doing well (expected at an excellence-oriented school like the GSB), they can do good—an important part of the GSB mission. Not only can they explore and understand the global economy, they can change it.

If you would like to support faculty at the GSB, please contact Sharon Marine, Office of Development, 650.725.3213.
A Milestone Gift for a Big Idea

I have already written about one “big idea” in management education under way at the Graduate School of Business—the Leadership Development Platform, a co-curricular program to develop student leadership skills [August 2003]. Thanks to an extraordinary $30 million gift from Anne T. and Robert M. Bass, MBA ’74—the largest gift in the School’s history—we are able to go full speed in developing our next big idea: a third level of learning that takes us beyond core courses and traditional electives to what we will call the Bass Seminars.

The defining characteristic of Bass Seminars is that students take on much more of the responsibility for course development. The seminars provide students a truly hands-on learning experience while the instructors set the agenda. For instance, Professor Robert Burgelman and lecturer Andy Grove, the former CEO and chairman of Intel, offer a Bass Seminar titled Strategy Making in the Information Technology Industry. Burgelman and Grove assign summer reading, and when the fall rolls around the students form teams and choose specific areas to research. One team might study developments in China; another might look at how information technology influences the music industry. The instructors present lectures early on, but the heart of the course involves the teams reporting back what they have learned and concluded, followed by discussion. Many electives employ team-based research projects, but Bass Seminars shift the emphasis. The students’ work product is the muscle and flesh, placed on the skeletal framework established by the instructor.

A handful of courses already meets the criteria for being Bass Seminars. Subjects include macroeconomic analysis, corporate social responsibility in the developing world, entrepreneurial design to alleviate poverty, and the human resource management of “talent.” The enrollments in these seminars are capped at 20 or 30, instead of the usual 60 to 72 for electives. Many are multidisciplinary. A seminar on bioengineering innovation mixes MBA students with graduate students from the schools of Engineering and Medicine.

Both students and instructors describe these courses as being their best classroom experiences. The seminars are hard work but they provide a level of student–faculty engagement that more than compensates.

Stanford Business School is better positioned than any of our peers to offer this third level of learning. Bass Seminars leverage both the small and intimate nature of the Stanford MBA Program and the tremendous resources provided by Stanford University as a whole. They fit well the culture of cross-school interaction being fostered by University President John Hennessy.

Our ambition is to expand the number of Bass Seminars, so that every one of our 750 MBA students has the opportunity to take at least one. Courses of such small size and individualized curriculum require a tremendous investment. To ensure that each student is able to take at least one Bass Seminar, we will need the equivalent of at least eight more full-time faculty. Fortunately, our vision is shared by the Basses, whose $30 million commitment, in addition to supporting seminars, also will enlarge our faculty endowment and create a challenge fund for the Business School Fund, which supports annual operations. I am grateful to them and to our students and faculty members—their combined efforts make Bass Seminars a success.
Alums Bank on Charter School

SUMMIT PREPARATORY High School is not your ordinary startup. A Redwood City, Calif., charter school with strong ties to Stanford, Summit Prep began five years ago when Chris Buja, MBA ’90, and two friends placed an ad in a grade school circular seeking other parents troubled by the choice of local high schools. To their surprise, 30 people showed up at an initial meeting. That group grew to an organizing team of more than 400—with Nancy Shott and Rosalie Cornew, both MBA ’87, and Sharon Lockareff, MBA ’90, prominent among them.

Most charter schools are up and running within six months, Buja says, but Summit spent three years doing due diligence. “It wasn’t about asking questions so much as learning what questions to ask,” he says. The process helped organizers decide what they wanted for their children: a free public school with small classes, superior standards, and a diverse student body.

Summit welcomed its 80-strong freshman class in September 2003. Last year, as sophomores, 92 percent of that pioneering class passed the California High School Exit Exam. Summit now has 270 students in grades 9 through 11 and next year, when students in the first class become seniors, it expects to reach its peak enrollment of 400.

Summit’s ties to Stanford are considerable. It is a partner with the School of Education, which meets with Summit faculty regularly and sends student teachers to the school. Robyn Yilmaz, MBA ’01, is director of operations at Summit, and board members include Buja; Andrew Thompson and Steve Humphreys, both MBA ’89; and Beth Bartlett, MBA ’87.

After three years in a former bank building, Summit expects to move to its own new facility next year. The old building has its attractions, however. The drive-through parking lot is convenient for parents dropping off their kids, and its location near the San Mateo County Hall of Justice was actually a plus during the notorious Scott Peterson murder trial. “We rented half the parking lot to the press,” Buja says. “After all, we’re entrepreneurs.”

Stanford Brand Spans Globe

BEV SMITH, the administrative director of the Stanford Executive Program, does a fair amount of traveling to make sure Stanford’s name is out in the world. On a recent trip to Hong Kong, she and Priya Singh, the marketing director for executive education, were walking along Des Voeux Road after a courtesy call at the Hong Kong Police Department.

“Priya had just mentioned that in Singapore you could be arrested for dropping a Kleenex in the street,” Smith recalls, “when I looked down and realized, oh no, my bag was open and my business cards, gone.”

Back at Stanford she received an email from one Jay Chan, AM/AB ’98. “I found a bunch of your name cards outside Landmark Department Store in Central Hong Kong,” he wrote. “As a Stanford graduate, I didn’t appreciate people trampling over the logo of my alma mater so I picked them up.” He offered to drop them at Smith’s hotel.

Says Smith: “So Stanford does have brand recognition in Hong Kong.”

U.S. Ambassador Makes Plea for Shao

CLARK RANDT, the U.S. ambassador to China, visited Jude Shao, MBA ’93, in a Shanghai prison this summer, raising the hopes of Shao’s classmates that he may be released soon.

Shao, a naturalized American citizen who grew up in Shanghai and had a business importing medical supplies to China, was jailed in 1999 on charges of tax evasion. Classmates who have worked for his release say he was wrongly accused after refusing to pay bribes. So far he has served 7 years of a 16-year sentence that human rights activists have called excessive.

Friends in Shao’s class took up his cause at their 10th-year reunion in 2003. They have established the FreeJudeShao website; written hundreds of letters; badgered journalists for coverage; and enlisted human rights advocate John Kamm, Chinese law expert Jerome Cohen, prominent politicians on both sides of the aisle, and former Stanford provost, Secretary of State Condoleezza Rice.

Assistant Secretary for East Asian and Pacific Affairs James A. Kelly raised Shao’s case at the 2004 APEC summit before Ambassador Randt requested and received permission to visit the prison. After visiting Shao in
Champion for Victims of Rare Disease

LAST SPRING Volvo of North America awarded Jack Orchard, MBA '95, a $25,000 honorable mention in its Volvo for Life competition. Orchard was honored for founding Extra Hands for ALS, a nonprofit that trains students to assist the families of people with amyotrophic lateral sclerosis (ALS).

Better known as Lou Gehrig’s Disease, ALS is a rapidly progressive neurological disorder that is fatal. Orchard was diagnosed with it five years ago. An entrepreneur working in Russia, he returned to the United States and founded the Jack Orchard ALS Foundation and its spinoff, Extra Hands for ALS. Although his mind is unaffected, Orchard has since lost all function in his arms and legs and expects to be on life support within the year.

A so-called “orphan” disease with only about 300,000 patients in the United States, ALS receives scant attention from pharmaceutical companies and legislators. Orchard hopes to change that. The foundation supports medical research into therapies for the disease and funds Extra Hands, which operates in seven U.S. locations. By familiarizing volunteers with the effects of ALS, Orchard believes Extra Hands can develop an army of advocates for government-sponsored research, including stem cell research, and changes in Social Security and Medicare drug benefits.

Families affected by ALS and those who wish to volunteer can find further information at extrahands.org.

June, he told Reuters News Agency that he was worried about Shao’s health, and hoped his heart ailment would give cause for medical parole. Unnamed officials of China’s Foreign Ministry told news agencies that they had “taken notice” of the ambassador’s interest in Shao.

1986 Grad to Head Carlson Biz School

ALISON DAVIS-BLAKE, PhD ’86, has been named dean of the Carlson School of Management at the University of Minnesota. Davis-Blake, who earned her doctorate in organizational behavior, was one of 200 nominees for the position. She is currently senior associate dean for academic affairs at the McCombs School of Business at the University of Texas and will remain in Austin while a successor is chosen. She will become dean of Carlson in July 2006.

Carlson has 4,400 students, of whom 1,700 are undergraduates. Davis-Blake said she will work to expand the undergraduate program, which currently accepts 15 percent of applicants.

“The outstanding training and mentoring I received at Stanford prepared me very well to assume this role,” Davis-Blake says. “I’d like to mention particularly Jeff Pfeffer, my major advisor and dissertation chair. His advice has been invaluable throughout my career.”

Spiritual Inquiry Through Lit Class

“GOOD AUTHORS are able to hold people up as jewels to the light, turning them around to show all of their facets,” writes Scotty McLennan, dean for religious life at Stanford, of his Business School elective, The Business World: Moral and Spiritual Inquiry Through Literature. “Good authors are also able to describe a setting so exquisitely that readers understand fully how characters are shaped and supported.”

McLennan’s course, which discusses one novel or play a week, has two goals: to make students think more deeply about their own moral and spiritual lives and to prepare them to do business in a global setting, where the underlying culture is often dominated by its religious perspective. “It’s the last quarter of their last year,” McLennan says. “I get them at the very moment they’re starting to think about the next 30 or 40 years.”

Students begin with The Great Gatsby. “Gatsby is all about the American dream in terms of his rags-to-riches story and his entrepreneurial spirit, his sense of potential and hope. Ultimately, what drives him is his love for Daisy, a goal that probably isn’t deserving. And, like so many business people, he is incapable of analyzing and changing his goal.”

After Fitzgerald, the class considers Arthur Miller’s Death of a Salesman and then moves to Judaism (The Ghost Writer by Philip Roth), Hinduism (Jasmine by Bharati Mukherjee), Buddhism (Siddhartha by Hermann Hesse), and Islam (Miraamar by Naguib Mahfouz). Later they read Tolstoy’s The Death of Ivan Ilyich, which, McLennan writes, “reminds us that the ideal alumni-magazine life is worthless if one can never transcend oneself and give oneself unconditionally to another.”

McLennan himself has close ties to a fictional character. His college roommate Garry Trudeau immortalized the lanky, red-haired intellectual as the activist preacher the Rev. Scot Sloan (“the fighting young priest who can talk to the kids”) in his comic strip Doonesbury and provided the cover art for McLennan’s book Finding Your Religion. If his students are aware of his comedic alter ego, Doonesbury’s “Dude of God” hasn’t heard about it.
FOR THE RECORD

MBA ’07 Student Profile

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Source: MBA Admissions office

CARD DEALS: MBA students celebrate their team effort after completing a greeting card company simulation that launches the first-year program.

now, these English Tudor-style homes on what was known as “Biz Hill” were built with spacious reception halls and rooms for entertaining.

J. Hugh Jackson, an accounting professor who was School dean for 25 years, had one built in 1926 for $28,000. Another housed the family of Eliot Grinnell Mears, a professor of geography and international trade at the new school. Mears’ daughters Dorothy Allen, 85, and Helen Gibson, 89, whose late husband (Weldon B. “Hoot” Gibson, MBA ’40) headed Stanford Research Institute, opened the home’s doors to 450 sightseers in May. (Another recent book by the Historical Society, Stanford Street Names, informs that Mears Court on campus was named for her father.)

Insurance Risk Raised by Global Warming

As chairman of reinsurance giant Swiss Re America Holding Corp., Jacques Dubois is understandably concerned that more and more of his company’s pay-outs go to cover losses from earthquakes, floods, and other natural disasters.

Events such as “100-year floods” are showing up every few years, producing large losses for the insurance industry, and forcing it to readjust old probability tables, Dubois told a Business School audience in the 2005 von Gugelberg Memorial Lecture on the Environment, which was held before Hurricane Katrina devastated New Orleans.

Swiss Re America’s vast staff of scientists has concluded that many of these environmental catastrophes could be linked to a warming of the Earth’s atmosphere. “We consider climate change to be one of the most significant emerging risks to our industry,” Dubois said.

More frequent and intense heat waves also can be blamed at least in part for the emergence and the resurgence of 30 infectious diseases over the past 30 years, from West Nile virus to the bubonic plague, he said. Global warming also can lead to deforestation, drought, and forest fires. From there, he warned, it is not a stretch to draw a link between climate stresses and political instability and conflict over rights to basic resources like food and water.

Dubois called for much more to be done to educate businesses about the magnitude of the problem. For its part, Swiss Re America has committed to making its own operations greenhouse gas neutral within 10 years. Progress could be faster if the discussion over climate change were more unified, he said. “Good deeds alone cannot solve the problem, and government can’t do it alone. The business community must become more involved.”

Danes Author Guide to Governance

SOMETIME BETWEEN Ivan Boesky and Bernie Ebbers, companies got tired of seeing their executives do the perp walk with carefully crafted, expensively conceived corporate logos as background. Legislators got into the act and, in the United States, the resulting Sarbanes-Oxley Act of 2002 was considered the most important piece of legislation affecting corporate governance in decades.

Fifty-some countries and governmental organizations have established or updated codes of corporate governance in the past six years. One is Denmark, whose Norby Committee had been appointed in response to perceived corporate risk-taking rather than to any scandals. Mads Øvlsen, MBA ’72, the board chairman of Novo Nordisk, was a member of that four-person advisory group, which made its final recommendations in 2001.

Unlike Sarbanes-Oxley, Norby offers guidelines rather than laws. The important thing, the Danes say, is that a compa-
Master Coaches

SHARON RICHMOND, MBA ’88, PAM FOX ROLLIN, MBA ’95

LIKE ALL GOOD COACHES, alumnae Sharon Lebovitz Richmond and Pam Fox Rollin know that it takes more than pure talent to reach a goal: It also takes hours and hours of hard work.

By day, Richmond and Rollin are the founders and principals of two separate consulting firms. But for the past two years, they’ve also been working with faculty to develop the School’s Leadership Development Platform (LDP), a program that helps MBA students hone their leadership skills. Readings and lectures play a role in the LDP, but Richmond, MBA ’88, and Rollin, MBA ’95, believe that most learning takes place when students have the opportunity to actually practice what they’ve learned in the classroom.

“Students come in to the program with their own leadership style, but they’ve only been able to test it in limited circumstances,” Rollin explains. Through the LDP, first-year students work on management simulations and role-playing exercises in small groups. Second-years act as their coaches, helping them to identify their goals, strengths, and opportunities for development.

For many second-year students, coaching others on how to lead is unfamiliar territory. This is where Richmond and Rollin come in: Drawing on their experience advising clients on leadership and organizational development, they act as “master coaches,” listening to the challenges that second-year coaches are facing and helping them devise strategies for resolving them.

Outside of the Business School, Richmond and Rollin recently collaborated on a study of “emotional intelligence”—a person’s ability to manage emotions, understand motivations, and be sensitive to other people. Their research revealed that emotional intelligence isn’t something that people are born with or don’t possess. “When we asked leaders whether they thought that emotional intelligence could be developed, the answer was a resounding ‘yes,’” says Richmond.

Rollin’s coaching experience at the School has led her to the same conclusion. She recalls a former student who “thought he was too quiet, too reserved” to lead. “Through the one-on-one coaching and by trying things out with his team, he learned that he could lead in his own style and be just as effective,” she says.

The potential to inspire such positive change keeps both alumnae involved. “It might sound hokey,” Richmond says, “but I share the mission: Change lives. Change organizations. Change the world. This is part of how I do that, one leader at a time.”

Sustainability as a core principle of the company. “Sustainability is not just a corporate statement, but something we all live,” Øvlisen says. The company, which is a major supplier of insulin, is working with the World Diabetes Foundation to overcome the psychosocial barriers to diabetes management. “This will not improve our financial bottom line for many, many years,” he says, “but it gives us the opportunity to ask the right questions in our work to develop better products and services, while we at the same time are helping diabetics and health care professionals have a useful dialogue, hopefully leading to a better treatment, a better quality of life for the individual, and lower costs to society.”

Mythbuster Chan: Grads Do Leave Nest

YOU’VE HEARD the one about the alligators that live under New York City. And the $250 recipe for Neiman-Marcus cookies? But the urban legend that bugs Assistant Dean Andy Chan is the persistent myth that Stanford MBAs refuse to leave the Bay Area after graduation.

Not true, says Chan, the director of the School’s MBA Career Management Center, and he has data going back 15 years to prove it. “With the exception of one year—2000—55 to 65 percent of our students have taken jobs outside the area,” he says. In fact, the numbers appear to be growing. While 60 percent of the MBA Class of 2004 found positions outside the Bay Area, preliminary figures show 65 percent of the Class of 2005 followed.

In order to locate many of those jobs, Chan, MBA ’88, and his staff visit alums and their companies in international locations. Over a few months last summer, they went to China, Hong Kong, Singapore, Chile, Brazil, and Argentina. They also regularly visit far-flung cities in the United States. Last year they went to Seattle, Chicago, New York, Boston, and Philadelphia.

Alums who would like more information or a visit may contact Celia Harms at harms_celia@gsb.stanford.edu.
Ray of Enlightenment

Michael Ray taught a generation of students to listen to their gut, find their own path, and aim for their highest goal—all in the name of creativity.

Joe Tye, MBA ’85, miscalculated, bidding only 60 points on GSB 341, Personal Creativity in Business. That was almost two-thirds of his bid allotment for all classes, but not enough to make the roster of Professor Michael Ray’s course—which was so popular that many students bid a maximum 95 to get in. Unfazed by the setback, the second-year student and class co-president showed up anyway.

“Let’s get creative about this,” he recalls telling Ray. The move may have showed more chutzpah than creativity, but it worked: The professor bent the rules to allow Tye to stay if he promised to do the work. Tye, who now lives in Iowa and consults under the moniker “America’s Values Coach,” calls it “the single most influential class I’ve ever taken—for class credit or not.”

This revelation seems surprising on meeting Ray. In his Santa Cruz home office, the semiretired professor (who hasn’t taught his famous class in over a year at Stanford) walks around tidying up and talking about the house. Ray seems to be demonstrating one of his “live-withs,” or rules for living creatively: “Be Ordinary,” which is to say, be yourself and don’t try to impress.

When I ask about something extraordinary—the colorful space where he leads a weekly chanting and meditation group, he steers me away from talk about the particulars of his personal spiritual practice. Invoking universals like gratitude, peace, and communion, Ray says he tried to open ways for students to explore their inner resources by bringing in multiple approaches to class but never advocating any in particular. He makes sure I’m comfortable in an overstuffed chair before settling himself in a mahogany-stained rocker—a farewell gift from his marketing faculty colleagues. “I was part of the marketing area, but toward the end I was pretty much in my own area,” he tells me. (His title is John G. McCoy–BancOne Corporation Professor of Creativity and Innovation and of Marketing, Emeritus.)

Ray’s uniqueness among the faculty offers a big clue to his popularity with students. After all, his teachings about self-actualization, looking inward, and living a life in accordance with your highest values aren’t exactly groundbreaking, having entered mainstream culture decades ago through humanistic psychology and New Age literature. Yet by the go-go eighties, these ideas once again seemed countercultural—especially at the Business School.

“It was completely unlike any other course at Stanford,” says Denise Brosseau, MBA ’93, who cofounded the Forum for Women Entrepreneurs with classmate Jennifer Gill Roberts from the personal mission statement Brosseau developed in the course. “It was the first recognition at the Business School that there’s more to life than money. I had always known that, but you can question your reality,” says Brosseau, who led the forum for 10 years. (She’s now CEO of Showcase Technology Inc., a company she recently cofounded.)

She and others call the course title a misnomer. Its scope goes far beyond business, and most people think of creativity only as the ability to generate ideas. Ray is interested in this innovative sort of creativity, but he cares far more about the broader sense of the word: what one alum called “being your self in life.”

This double meaning serves Ray well. Tye recalls that when he once told Ray that the creativity class is really about courage, Ray responded, “I know, but don’t tell anybody because they wouldn’t have approved a class on courage.”
Perhaps not, though when he introduced the class in the 1979–80 academic year following a period of intense soul-searching, Ray was already a tenured professor, teaching courses in advertising, marketing management, and research methods. He had arrived at Stanford in 1967 after working in advertising and earning his doctorate in social psychology, and by the late seventies was outwardly successful but inwardly miserable. In one of the personal development courses he took during that period of turmoil, he met Rochelle Myers, a multitalented artist and art therapist, and the two developed and taught Personal Creativity in Business, the first such course in a major business school. The class quickly took off and eventually led to similar courses elsewhere. Srikumar Rao, a professor at Long Island University who has taught his own Creativity and Personal Mastery class at Columbia, Kellogg, and the London School of Business, calls Ray an inspiration. Rao says he’d wanted to teach a course like this for some time but thought that no business school would ever want it. But when he learned of Ray’s course and its popularity, he thought, “If Michael can pull it off at Stanford, maybe I can pull it off, too.”

While it’s hard to know the course’s impact on the more than 1,500 former students, interviews with a decidedly nonrandom sample—mainly those Ray has stayed in touch with—reveal a profound and lasting effect. The biggest take-home lesson: Listen to your inner voice.

Brosseau provides a most dramatic example. During an in-class exercise she describes as a guided meditation but that Ray says is more generally known as a “visualization,” she made what she calls the best decision of her life: to call off her wedding. “I had the dress, the invitations, everything—and the next day I left the relationship.”

What happened? The exercise, in which Ray had students imagine meeting and getting advice from a “wise old person” of their choice, left her sobbing—“something you just don’t do at the Business School,” she now says with a laugh. The exercise helped her quiet her mind enough to hear what she already knew. She’s learned, she says, that “there may be 450 reasons to do something, but if your heart isn’t saying ‘Yes,’ don’t do it.”

“For the kind of student attracted to the Business School, that’s a counterintuitive message,” says Heidi Roizen, MBA ’83, a managing director at Mobius Venture Capital. “It’s OK to think analytically,” she adds, “but especially in early-stage venture capital, there’s no amount of due diligence you can do to be absolutely certain something is a good investment, so you have to trust your gut.” Roizen often uses Ray’s question, “Is it a Yes or is it a No?” as a simple way to tap into that inner wisdom. “Take a deep breath, and often the answer comes to you.”

Listening to their inner voice took some alums off the seemingly logical career path. Larry Smith, Sloan ’01, says that when Cummins Engine paid his way through the competitive one-year Sloan Master’s Program, the company viewed him as “one of the fast-trackers.” So when he left Cummins just a couple years later to work in the nonprofit sector—taking a pay cut of about $40,000—some people said he was crazy. But those who knew him well weren’t surprised. Smith, now associate director of the Center for Philanthropy at Indiana University and a lay minister in his church, hasn’t looked back.

That’s because living a life true to your self is priceless, Ray suggests. Kraig King, MBA ’83, who left a management career to earn a doctorate in psychology, feels his current work in helping executives and organizations become more effective is a more authentic path for him. But, he says, “If I were to just do a cost-benefit analysis, I doubt that I would have taken the approach that I took.”

The path for Jim Collins, MBA ’83, became clear when he applied his favorite live-from-the-course: “Do only what is easy, effortless, and enjoyable.” Collins, who wrote the foreword to Ray’s latest book, The Highest Goal (Berrett-Koehler, 2005), realized in his twenties that for him, having a job did not pass the “eee” test. “I was just not cut out to work for other people,” Collins says. That discovery led him to independent research, which became the basis of the bestsellers Built to Last and Good to Great, which Collins co-authored.

Ray makes no claims that his techniques will bring material wealth—in fact, worldly success is beside the point. What is important, he says, is making your life itself a work of art. As he’d tell his students, “This kind of creativity is essential for health, success, and happiness in business and in life.”

[Image of Stanford Knowledgebase]

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Renegotiating Debt: One Consumer at a Time

As alternatives to consumer bankruptcy dwindle, Brad Stroh and Andrew Housser offer a third-party alternative to those overburdened with personal debt.

You’ve lost your job, experienced a financially devastating divorce, or suffered a catastrophic illness that costs thousands of dollars not covered by your insurance. Whatever the impetus, you’ve plunged into the fiscal nightmare zone, broke and in debt big time, and you don’t know where to turn.

This scenario is becoming all too common for millions of Americans, many of whom are in hock up to their eyeballs even under the best of circumstances. And with the cost of living ever rising and recent laws making it harder for debtors to find relief [See accompanying story], individuals who fall on hard times have fewer and fewer options available to them. One option is to hire Freedom Financial Network LLC, headquartered in San Mateo, Calif., and founded by Brad Stroh and Andrew Housser, both MBA ’02. Families experiencing financial distress hire their company to advise them and negotiate with creditors to reduce debts, including credit-card balances and other debts not covered by collateral.

“We don’t just consolidate loans and move debt around, as most advising agencies do,” Stroh explains. “Our business innovation is that we save consumers the maximum amount possible by negotiating with creditors to reduce the principal owed, and we’re paid by the consumer, not the creditor, which eliminates any conflict of interest.”

Freedom Financial says its model benefits consumers and creditors, as well as earning Freedom Financial a profit. Consumers on average pay only 43 percent of what they owe; creditors recoup more than they would have if they had sold the delinquent loan to a third-party collection agency; and Freedom Financial earns commission based on what it saves the client. The company’s fee to clients varies but is approximately a quarter of the amount of principal it manages to knock off. The firm says it has negotiated debt relief for more than 4,000 clients—who average $30,000 of debt each—over the last fiscal year. “We’re achieving client savings of about a million dollars per month,” Stroh says of his company, which enlists the help of 70 employees, including two other GSB alums (Jeffrey Staley, MBA ’02, and Louis Lipani, MBA ’04).

Freedom Financial’s approach works in part because it helps clients avoid the dreaded stain of bankruptcy.

Brad Stroh, left, and Andrew Housser
New Laws Grapple with Consumer Credit Issues

NEW LEGISLATION making it much more difficult to file for Chapter 7 bankruptcy protection—the filing that erases all debt—was to go into effect in October. Now filers must pass a stringent means test to prove they have no ability to repay. Many consequently will be forced to pay much or all of what they owe on a strict timeline rather than have their debts dissolved as in the past. A bankruptcy nevertheless will appear on their credit report.

“This will significantly extend the period of financial trauma for many Americans who turn to bankruptcy because they are truly in desperate situations,” says Brad Stroh, MBA ’02, co-CEO of Freedom Financial Network. The law also may put a damper on America’s entrepreneurial spirit. “Many small businesses are funded with people’s personal credit cards,” Stroh notes. “If there is no longer the safety valve of bankruptcy for failed ventures, people will be much less likely to take business risks in the future. Our entire economy could be negatively affected.”

But critics of existing bankruptcy laws say bankruptcy abuse ultimately creates a burden for consumers, and that the current system in fact makes no distinction between the millionaire and the struggling family. Meanwhile, the government, nervous about the $10 trillion of consumer debt hovering over the nation, also has mandated a rise in minimum credit-card payments. That means by the end of this year, many people’s monthly credit-card payments could double to 4 percent of their outstanding balances. “Individuals scraping to make the monthly minimum will now be bumped into the financial hardship category,” Stroh says.

Adding to the one-two punch is a third hit: The federal government has shut down many debt-counseling and credit-counseling agencies posing as nonprofits because they are, in fact, outsourced collectors making money from credit-card companies. “As imperfect as they are, they’ve been people’s main recourse for assistance with debt hardship,” Stroh says.

These new federal developments “will put people in indentured servitude to their debts for many years,” he says. Although debtor’s prison hasn’t been reintroduced, the alternative, it seems, will not be much fun either.
Pioneering Supply Chain Forum Turns 10

What began as an informal gathering to discuss supply chain dynamics is today a network that addresses the most successful means of bringing goods to the market.

Ten years ago Amazon.com opened its virtual doors offering a new business model for selling books that would spur countless copycats and usher in an entirely new way to sell merchandise online.

Since then, Amazon and its founder, Jeff Bezos, have often been hailed for their genius. They are credited with recognizing the young consumer-focused internet as a retail sales platform that could slash a company’s operating expenses and expand its customer base almost exponentially.

But Hau Lee, the Business School’s Thoma Professor of Operations, Information, and Technology, says that Amazon’s real insight was in building an internet business that was solidly backed by a brick-and-mortar network of warehouses and distribution centers. While other online retailers slapped up businesses with little more than a website and a link to the manufacturer’s warehouse, Amazon took direct control of the merchandise it was selling in a way that would enable it to offer superior customer service while easing its expansion into other product categories like the toys and gardening tools it sells today.

“The fascinating thing about Amazon is it is supposed to be an internet company, but they make use of brick and mortar very well,” Lee says. “Because they built several warehouses, they were able to sell a lot more than books. They combined the old economy with the new.”

At the same time Bezos was launching Amazon, Lee was founding the Stanford Global Supply Chain Management Forum as a research institute that brought together academics and business leaders to understand successful supply chain practices in an increasingly fast-paced and global business environment. Looking back over the past decade, Lee, co-director of the forum, says that Amazon provides a wonderful example of how a company can transform its business and trounce the competition through effective supply chain management.

Supply chains are behind-the-scenes networks of manufacturing plants, distribution centers, transportation systems, and even central design operations. They do not always receive a great deal of attention. Even big companies sometimes neglect to fine-tune their supply chains or put contingency plans in place to respond to manufacturing or shipping disruptions caused by natural disasters, local health epidemics, terrorist attacks, strikes, or bankruptcies.

But mastering the supply chain is critical to ensuring a steady flow of goods and can also be the key to gaining advantage over rival businesses in extremely competitive markets, notes Lee. He cites the example of the Mexican cement manufacturer Cemex, which was able to grow its market share by incorporating road traffic monitoring technology to slash its delivery window from 2 hours to 15 minutes.

Facts about the Forum

PARTNER COMPANIES: 25

ACADEMIC PARTNERSHIPS WITH:
- The European Forum on Global Supply Chain Management at Eindhoven University in the Netherlands
- Hong Kong Logistics and Supply Chain Forum in Hong Kong
- Annual Roundtable discussions, conferences, and seminars held on the Stanford campus and in locations including the Netherlands, Switzerland, and Shanghai

EDUCATION OFFERINGS FOR WORKING EXECUTIVES:
- Managing Your Supply Chain for Global Competitiveness Executive Program
- Supply Chain Management and Technology (MBA elective)
- Supply Chain Management and Analytics (MBA elective)
- Foundations of Supply Chain Management (PhD course)
Sixteen years ago, the Business School organized an informal gathering of students, academics, and local businesses including Sun Microsystems and Apple Computer to explore ways to strengthen supply chains. The discussion turned into a regular event, and in 1995, the Stanford Global Supply Chain Management Forum was officially set up to develop and teach better supply chain practices for an increasingly global business environment.

“We were the first group of its kind,” says Seungjin Whang, the forum’s co-director and the Jagdeep and Roshni Singh Professor of Operations, Information, and Technology at the Business School. “Without our leadership, this focus on supply chain practices may never have happened.” In early June, the group held its 10th annual symposium and hosted presentations on the latest supply chain practices from 13 global businesses including Intuit, Amazon, Cemex, and the Gap.

Much of the discussion focused on the ways globalization and technology have accelerated the business cycle and made efficient and nimble supply chains more important than ever. Software and other communications technology enabled by the internet have the power both to ease supply chain disruptions and to magnify the impact of a local disruption so that it is felt the world over, said speakers.

Mark Roenigk, vice president of supply chain operations at the financial services software maker Intuit, noted that his company’s supply chain was so susceptible to unforeseen events that it has started to focus less on market forecasts and more on technologies that will make its manufacturing faster and more flexible.

This kind of strategy is consistent with what Lee and other members of the Forum have long advocated. In 1997, Lee and Whang authored a paper titled “The Bullwhip Effect,” examining how minor changes in demand are magnified as they move up the supply chain—often causing companies to dramatically ramp up or cut back production far more than is warranted.

Last year that paper was named one of the 10 most influential papers published in the journal Management Science during the past 50 years. All the other papers recognized were at least 20 years old.

“In a sense, supply chain management was leveraged by technology, but it is not just about technology,” says Whang. Kosuke Ishii, professor in the design division at the Stanford School of Engineering, also serves as a co-director of the Forum, in a nod to the importance of product design in effective supply chains.

One business that has effectively altered its product design in the interest of better supply chain management is computer maker Hewlett-Packard, which has gradually shifted from building customized computers for different countries to adopting a common design with minimal variations.

Today, HP computers include only a few country-specific features, such as the power unit, which can be added in the final stage of manufacturing. That way, if there is a sudden surplus in Iceland, HP machines headed for that market can be more easily diverted to Spain or another market where demand is stronger. Lee says this concept of “last-point-differentiation” also has been key to the success of other computer makers like Dell.

Going forward, Lee says the supply chain discussion increasingly will concern doing business in China, the site of a growing number of manufacturing operations and a major customer for U.S. companies.

“It’s amazing that every time I talk to a company, it is hard to have a conversation that does not include China. Everyone wants more of an understanding about how to leverage China and make use of the opportunities in China,” he says.
Mike Murray, MBA ’81, clearly remembers the day. About 13 years ago as an Apple Computer employee, he was attending a national sales meeting in Acapulco and decided to take a walk on the beach. There he met a boy dressed in rags, begging, holding the hand of his little sister, who was blind. Murray gave them money, but he was profoundly shaken by their plight. Afterward, he found himself thinking often about the encounter. Surely there must be a way to help these children—and millions of others—in a more constructive, long-lasting way.

Murray now thinks he has found the answer. About four years ago, he launched an organization to help accelerate the growth of microfinance, an approach whereby local groups make small loans to destitute people to jumpstart businesses. He recalls the pride and hope exuded by a group of women in Bolivia who had received loans of $100 or so. “I saw a real miracle of emotional, intellectual, and spiritual empowerment,” he says.

For Rachel Payne, MBA ’04, the long-term impact of microfinance really hit home last year when she helped set up a loan program in Uganda. It was during a conversation with a village phone operator, a client who had taken out a loan to set up a business providing telephone service for the rest of the village. The woman recounted overhearing a mother urging her daughter to go to school so she could become a phone operator herself one day. In that moment, Payne explains, she saw the profound effect her work could have on the entire community. “These women were role models for the rest of the village, making it socially

A loan of $50 in the developing world can raise a family out of abject poverty, but servicing small loans can be costly. Alums are working to improve the business model for microfinance institutions so they can expand their reach.

BY ANNE FIELD

Food vendors are among the small business people who benefit from microloans in developing countries. From left to right, a businesswoman client of a microfinance institution in Hyderabad, India; another in Tula, Mexico; and others in Nairobi, Kenya. The institutions that make the loans are partners of Unitus, an organization headed by Mike Murray, MBA ’81, who is trying to expand the reach of microfinancing.
acceptable for girls to be literate,” she says. “By breaking down the barriers people face, we are enabling them to use their own resources to change their lives.”

How best to address the problem of extreme poverty in developing nations? For a growing number of people, one approach—microfinance—is a tactic of breathtaking potential. “It’s the most important solution I have found,” says Vinod Khosla, MBA ’80, a partner in Kleiner Perkins Caufield & Byers, the Menlo Park, Calif., venture capital firm. Khosla works closely with a number of microfinance institutions.

Inspired by European and Indian credit cooperatives in the late 19th century, this microfinance model of lending small amounts to individuals and making their friends and neighbors responsible for defaults was pioneered in the mid-1970s by Grameen Bank in Bangladesh. There are now about 3,000 microfinance institutions—MFIs for short—in Asia, Africa, the Caribbean, and Latin America. They are financed both by donors looking for a way to tackle poverty and, more recently, by investors seeking profits. In most cases, borrowers don’t have conventional collateral. Interest rates at 30 to 50 percent a year, while high by Western standards, are considerably less than those demanded by other local moneylenders, who charge from 10 percent a day to 50 percent a month. To ensure repayment, microfinance institutions often lend to groups of 3 to 30 borrowers, usually women, who take responsibility for seeing that their colleagues pay on time. Repayment rates range from 90 to 98 percent, according to a variety of experts.

The microfinance approach has helped many people work their way out of abject poverty and send their children to schools they would not otherwise have been able to afford. It also has empowered women by providing them with more economic clout in their homes. But it is by no means yet a panacea for world poverty. MFIs still face substantial barriers, from a lack of standardized financial metrics that make it difficult to measure success to steep administrative costs and problems associated with serving dispersed rural populations. Indeed, while there are about 3 billion people, including children, living on less than $2 a day—the World Bank’s definition of poverty—microfinance organizations have given loans to about 80 million adults. That, according to Murray, is just about 20 percent of the potential candidates for loans.

“We have to get a lot larger to really help people living in poverty,” he says. “At a macro level, it’s when you have 10,000 or 20,000 families benefiting from these loans that the growth rate of an entire economy is raised. The tide lifts all ships.”

The good news is most of these obstacles are far from insurmountable. Microfinance institutions and their advocates, including a number of Stanford Business School alumni/ae, are addressing problems head-on. Specifically, they are introducing new measurement systems, creating more efficient operating systems, developing ways to significantly boost growth, and installing technological innovations.

The challenges start with the need for financial transparency. Until recently, there have been no standard methods of measurement. The lending institutions have produced a potpourri of metrics—and little clear evidence of their profitability, size, or societal impact. For example, some MFIs include donations in their revenue numbers; others don’t. “There are lots of anecdotal accounts of success, but it would be nice to have more quantitative measures,” says Business School Professor John McMillan,
who co-directs the School’s Center for Global Business and the Economy. The center has hosted several discussions and speakers on microfinance.

“If you’re going to reach more investors and donors, you need clear standards that are generally accepted,” says Payne, who now works for Google, where she is helping to set up the Mountain View, Calif., company’s philanthropic arm.

The local nature of MFIs means many don’t operate under regulatory supervision, says Blaine Stephens, director of analysis for Mix Market, a microfinance information clearinghouse in Washington, D.C. This makes it difficult to judge which of the nonprofit organizations, most of whom are dependent upon donors now, could in the future sustain themselves or greatly expand their reach.

In fact, some studies suggest MFIs are still very dependent on donations. In a 2003 study of 125 of the largest, 66 were able to meet their costs without donations, according to the MicroBanking Bulletin, which is published by Mix Market. That means, of course, that about half were not financially sustainable. For those focusing on poorer clients, 37 percent were sustainable.

The profitability of microloans, according to the limited data available, tends to vary with the lending institutions’ clientele and loan types. So-called solidarity lenders serve groups of three to five people. Village banks work with populations up to 30. Others lend to individuals, eschewing the traditional group orientation of MFIs. Generally, “the larger the group, the poorer the people,” says Monica Brand, MBA ’97, vice president of marketing and product development for ACCION International, which assists and invests in MFIs in Latin America, the Caribbean, and Africa.

Thus, the average loan size for village bank lenders is $149, compared to $1,220 for lenders to individuals, according to researcher Jonathan Morduch, associate professor of public policy and economics at New York University. In a recent study of 124 institutions, he found the average return on assets was minus 8 percent for lenders using the village banking model, minus 5 percent for solidarity loans, and plus 1 percent for loans to individuals.

Consider one of the most successful MFIs, Bank Rakyat Indonesia (BRI). From 1999 to 2002, BRI’s microfinance division had annual average profits of $147.1 mil-

Vinod Khosla, MBA ’80

“‘It’s the most important solution I have found.’

—VINOD KHO SLA
funds are a significant source of capital, but according to Morduch. ACCION, launched in 2001, has an annualized return of $40 million invested, with an anticipated $1.2 billion in assets with a 7 to 8 percent return. The implication: $150 million is made in dollars, the risk is held by the recipient, with a large number of clients with small staffs. Microfinance institutions also have had trouble making inroads in rural areas with dispersed populations. Indeed, the most successful are located where it’s easier to serve large numbers of clients with small staffs. Agricultural economies pose another problem: When they’re hit by seasonal calamities, such as exceptional rainfall, most or all of a lending institution’s clients are hurt at the same time. “It’s difficult for portfolio management purposes to have all our clients’ risks so connected,” Littlefield says.

Still, while MFIs face steep challenges, many advocates say they’ve also begun to turn the corner. “We’re at a turning point. Awareness [of more sophisticated metrics] has started to increase. Investment has started to increase,” Payne says. “We’re reaching a tipping point for microfinance in our ability to reach more people.” In the past five years, there’s been a small but significant upswing in the number that are self-sufficient. Average total revenue over average total cost ranges from 0.95 for solidarity lenders to 1.11 for MFIs loaning to individuals. That compares to 0.89 for solidarity loans and 1.02 for individual loans in 1998, according to Morduch. Also, newer organizations—those started after 1995—have become financially sustainable more quickly than those started previously, according to MicroBanking Bulletin.

Several major banks recently have entered into microfinance lending, further evidence of its increasing viability, according to advocates. One pioneer, Deutsche Bank, for example, introduced its own private nonprofit fund about seven years ago to make loans to local banks, which would use the money as collateral when lending to MFIs.

“Our mission is to create an indigenous system of financial support,” Christina Juhasz, MBA ’95, says about the bank’s foundation, where she is the volunteer director of the microfinance group in the United States. Earlier this year, however, the bank took its commitment to another level with the launch of a $75 million commercial fund that accepts outside investments. (The bank does not anticipate making a profit from the fund, which is part of the foundation, but does expect investors in the fund to do so.) “We saw that, my goodness, there’s money in this,” says Juhasz, who is also a Deutsche Bank fixed-income direc-
tor. “And we could encourage others to invest with us for a profit.”

Then there’s the issue of standardization of financial metrics. Recently, various organizations have made significant progress. This fall, Consultative Group was scheduled to come out with a standardization guide for microfinance institutions. Already, groups like Mix Market have developed metrics that about 450 MFIs follow.

The most profitable institutions have established cost control models for the industry. While microfinance institutions have generally charged high interest rates to cover the high administrative costs of small loans, at some of the most successful institutions costs are down to about 4 cents on the dollar, according to Littlefield.

Some advocates say the most profitable MFIs do not all focus on less-poor clients either. A study of 17 institutions that became self-sustaining between 1999 and 2002 found that their loan balances were lower on average and retained more of a focus on poorer clients than others, according to MicroBanking Bulletin. ACCION’s Brand points to Compartamos, a successful MFI in Mexico that uses a village banking approach and “reaches some of the lowest segments of the poor,” she says, thanks to highly efficient operations. And, according to Murray, the larger average loan size made by some MFIs doesn’t mean they’re working with less poor clients; it means that their borrowers are on their second and third loans, which tend to be larger than their earlier ones.

The fact that the more sustainable MFIs tend to reach more clients is one reason that Murray launched an organization in 2001 to help them dramatically increase the number of people served. He founded Unitus, what he calls a microfinance accelerator, to provide training and other assistance to promising MFIs with the goal of reaching 10 million borrowers by 2015.

Murray and his colleagues, based in Redmond, Wash., pinpointed 60 financial, political, and management metrics to identify the microlenders who were most likely to be successful. (They had to have been making loans for two to five years with a 98 percent or greater repayment rate, for example.) During five- to seven-year part-

“We saw that, my goodness, there’s money in this.”

—CHRISTINA JUHASZ
nnerhips with the chosen organizations, Unitus intends to help them move from nonprofit status to official banks for the poor. The institutions can then be deemed eligible for equity investments, allowing them to grow their operations significantly. With this approach, “you’re going to make a real dent in entire communities,” says Murray, who expects each of the seven MFIs he is working with now to serve at least 250,000 clients in five years.

One such institution, Sks, located in Hyderabad, India, was serving about 13,000 women three years ago. Unitus consultants helped rewrite the organization’s business plan and train its managers. Now, it reaches about 100,000 clients and has applied for a license to become a bank. Its return on assets is 2.5 percent.

Advocates also point to a big push to promote savings among MFIs. More than 10 percent of institutions from 1999 to 2002 went from having no deposit services to holding savings of more than 20 percent of their total asset base, according to Mix Market. That’s important because institutions able to take deposits are likely to have a lower cost of capital and the ability to make more loans. They point to the success of BRI, which was launched in the 1980s as a bank for the poor. In the 1997 financial crisis, the bank not only survived but took on more deposits because it was viewed as safe, Morduch reports.

Still, while there has been progress, it’s a tough road. In order to register officially as a bank, MFIs in many countries must jump significant regulatory hurdles. In some, regulatory reform will be necessary first.

Perhaps the biggest boost for microfinance will come from new technology. Some MFIs have experimented with the use of PDAs. Loan officers using their PDAs can make financial decisions in the field so that clients don’t have to make a time-consuming trip to the branch. Payne recently participated in a one-year pilot for Grameen Bank in which clients in rural areas of Uganda made loan payments by swiping a smart card into point-of-service machines hooked up to a branch over a wireless network. If successful, such technology could erase most of the problems faced by MFIs serving dispersed, rural populations.

“If they cover the cost for tiny transactions without having the human capital and variable costs of the past,” Littlefield observes, “there’s almost no limit to how many of the poor can be reached.”

ALTERNATIVE APPROACHES to Reducing Global Poverty

MICROFINANCE IS JUST ONE OF MANY APPROACHES to helping the poor in developing countries improve their lives and become self-sufficient. Here are a few other organizations in which Business School alumni/ae have been involved and their models:

VILLAGE ENTERPRISE FUND

Started in 1987, this San Francisco–based group gives outright grants of $100 to small groups for businesses such as a bicycle repair service run by five people in the Tororo district of Uganda. “It’s inconceivable to me that you could have a loan program in a very rural area,” says Robert King, MBA ’60, who is on the fund’s board of directors. “It’s not an easy thing to service the debt.”

According to King, the approach has had stellar success. He points to one woman who went from being a beggar to running a profitable fish business—and being able to send her children to school—over a period of two years.

ACUMEN FUND

Founded four years ago by Jacqueline Novogratz, MBA ’91, pictured at left, the New York–based Acumen Fund practices what some have called “venture philanthropy.” Acumen gives small companies in India, Pakistan, Kenya, Egypt, and Tanzania grants and loans totaling several hundred thousand dollars apiece to make and sell critical goods and services that the poor lack but desperately need. (Think clean water or adequate health care.) One company, for example, provides poor urban squatters access to plots of developed land at affordable rates. Another offers an employment and training program in health care for uneducated youths. The ultimate goal: creating sustainable companies that can improve the overall standard of living.

KICKSTART

The underlying philosophy of this 14-year-old organization, based in San Francisco and Nairobi, is that the key to alleviating poverty in rural Africa is giving poor people access to technology with which they can dramatically change their lives. “We put credit into the supply chain at the top level,” says Aaron Slettehaugh, MBA ’02, who worked with the organization, formerly known as ApproTec, for about three years.

By giving the manufacturer of, say, irrigation pumps a line of credit, a chain reaction starts, ultimately allowing the farmer to buy on credit an $80 to $90 pump he would never have been able to afford otherwise. “We’re looking for something that can create a major large-scale change, not incremental improvement,” Slettehaugh says.

FROM TOP: PHOTOGRAPHY OF ROBERT KING, JACQUELINE NOVOGRATZ, KICKSTART, KICKSTART.
SOME PEOPLE BELIEVE that companies achieve great success because they are headed by a brilliant, charismatic leader. I think this is a myth fueled by media hype. Agility, continuous improvement, and outstanding total quality require the ideas and involvement of everyone in the organization. There must be leaders at every level.

Why? The worker who runs operation 40 on our crankshaft line knows more about how to reduce variation in the concentricity of the main journals than I could learn in the rest of my life. Toyi Rodríguez, who works in our parts distribution center, knows how to speed up deliveries much better than I do. Our maintenance manager, Javier Shigetomi, has reduced downtime on the cylinder-head line through predictive maintenance in ways I never imagined. Likewise, how Jorge Machuca can design the perfect power train combination for a truck carrying 60-ton loads on the steep Veracruz–Mexico City impresses me no end.

One unconventional and especially fruitful way to develop strong leaders at every level is to create opportunities for employees to do good in the surrounding community. Volunteering helps develop self-awareness, confidence, empathy, persuasiveness, tenacity, openness to change, determination, and drive. I learned this through experience—it was not the theoretical construct I started with.

Nine years ago, as head of Cummins’ wholly owned Mexican subsidiary, Cummsa, I established a local foundation with seed capital from the Cummins Foundation. Recognizing that a small foundation would have negligible impact if it tried to deal with the many socioeconomic problems and injustices in the country, we decided to focus on two areas—“education for productivity” and natural resources conservation—and to require that every project have the direct involvement of one or more of our employees as volunteers.

Cummsa has 120 distributors and dealers throughout Mexico, but its 1,200 employees, three-quarters of whom are unionized, all work at one facility in San Luis Potosí, a city of more than 370,000 located 250 miles northwest of Mexico City. The plant there makes cylinder heads and crankshafts and remanufactures a variety of engines for export.

The Cummins Philanthropic Association, known by its Spanish acronym AFIC, began in 1996 with three projects and 17 nonunion volunteer employees. By my retirement at the end of 2004, we had eight projects involving 89 employee volunteers. Our union employees are mostly involved in short-term projects, since having to rotate shifts limits their participation.

Our first project, a workshop called Taller Brayle, was designed to create decent jobs for people with blindness. Five carpenters produced 370 wooden shipping skids a month to be used for exporting our cylinder heads. By the end of 2004, the workshop had 12 employees producing an average of 7,005 shipping skids for Cummsa and nine other companies. Four workshop employees are blind, and all but two have disabilities. While the payroll increased 2.4 times, productivity increased 19 times, and annual sales reached $520,000. Ten handicapped former employees have “graduated” to jobs with other local companies.

Save a Tree is a project designed to educate Cummins employees and their families about the conscientious use of paper and recycling. In four years through 2004, 940 metric tons of paper and cardboard—the equivalent of about 15,700 seven-year-old trees—have been sent to a recycling center. We estimate this has saved close to 3.8 megawatts of electric energy and 24.5 million liters of water.

The Satellite Development Center, located in a poor neighborhood of 18,000, tries to improve residents’ quality of life through “education for productivity” and the teaching of humanistic and ethical values. In nine years, more than 2,000 adults and youngsters have taken courses that include adult literacy, how to parent, computer training, first aid, pastry-making, haircutting, cosmetology, knitting, cooking, and English. Several dozen women use what they have learned to earn income for their families.

In 1999, the center spawned the Creation Workshop to create decent jobs for mothers who headed families. Five women produced about 4,000 industrial uniforms for Cummins that year. By 2004 there were 19 women producing nearly 16,000 uniforms for 40 customers, while a nursery for the employees’ children provided two more jobs.

Encouraged by Cummsa volunteers, in 1998 the state government constructed the Business Industrial Training Center to provide technical training in manufacturing, maintenance, and metrology. Ignacio García, then our plant manager, chaired the mostly private-sector board that determined course content and teaching methods. He is now vice president of purchasing for the...
largest of Cummins Inc.’s five worldwide business units.

Training and Support for the Handicapped, started in 1999, offers courses in computing, accounting, carpentry, high school accreditation, English, and sports coaching to help people with disabilities develop skills for jobs. In five years some 200 disabled people have been trained, and almost half of them have found jobs.

For a Better Future aims to teach street children moral values and the work ethic. We have worked with 10 children, several of whom have stayed in the program for several years. They spend mornings at the plant instead of on some street corner selling chewing gum, candy, and the like. To offset this loss of income, we give their families a small stipend. Our volunteers help them with their homework; most have improved their grades.

Serving as a volunteer requires adapting to a world where the relationships, challenges, and satisfactions are very different from those found at the workplace. Within a plant or office, the language and work styles reflect attitudes and behavior that are generally well-known and predictable. But as volunteers, employees are outsiders, and, at least in Mexico, their motivation is sometimes viewed with suspicion. (This was certainly true also when I served as a Peace Corps volunteer in a Venezuelan slum 40 years ago.) Could this Cummins person actually be an agent from the Tax Department or the Ministry of Health, the Attorney General’s Office, or even from the Judicial Police?

When they begin, volunteers do not know the aptitudes, education, values, beliefs, and perceptions of the people they will work with. Who has power and how it flows is unclear. In a community, the movement of people and things is less fixed or predictable than when one is working on a machining line, a personal computer, or a company presentation. That is why volunteers learn to observe the nuances of what is being expressed with body language as well as with words:

When you’re talking with someone, does he or she move closer or away? Does the person look you in the eye? Do onlookers crowd around or keep their distance? Do they nod in agreement with whoever is speaking? Do they look at their shoes? Are their arms crossed or hanging at their sides in a relaxed way? Do their faces show enthusiasm, bewilderment, frustration, or even resentment?

When you work with blind people, for example, you have to learn how they “see.” Once when I was leaving the Taller Brayle workshop after a visit, I said to one of the workers, “Well, Jesús, we’ll be seeing each other.” Without any animosity, he immediately corrected me by saying, “Sure, we’ll be hearing each other.”

Volunteers also learn to listen in a different way because the vocabulary and styles of communication are different from those used in the company. One of our volunteers, José Contreras, expressed it this way:

“I have learned that you have to give people the opportunity to be heard before you judge them. Also, when I want to find out if a person is qualified or not, instead of basing my judgment on his experience and knowledge, it makes more sense to know about his values and feelings.”

Volunteers develop, in a special way, a sense of responsibility, initiative, and perseverance. Obtaining resources is not simply a question of filling out a requisition form and getting it approved. Outside the company, statistical data and information of all kinds are not so readily available or reliable. You need more creativity and tenacity—if the resources were readily available, the problem wouldn’t exist.

Gerardo Rosas: “In the projects we see a bunch of things. There, we don’t have the quality or maintenance departments to supply what we need. We become independent and multifunctional. It forces you to take initiative.”

Mariana Romero: “We are the ones responsible for seeing that the center operates in collaboration with the government’s Integrated Family Development Program, the local university, and the National Institute for Adult Education. You have to play a forceful leadership role and make things happen, so that the center’s goals are reached.”

Volunteers also develop an extraordinary sense of teamwork.

Gerardo Rosas: “You’ve got to pitch in regardless of your position, and even help unload the trucks. It makes you feel closer to
Mariana Romero: “I don’t know if the company makes you feel good because it allows you to participate in the foundation or if being involved in the foundation makes you feel good about the company—perhaps both.”

All told, volunteers must learn to be real leaders. Rarely do they find easy ways to reward or to punish. There are no raises or bonuses to be given, nor is it easy to fire someone. They must learn to build partnerships, develop patience, accept frustration, withstand failures, and recognize when they have not been understood. They learn to exercise leadership through persuasion, which means they must understand what people truly want and need—and they must adopt that viewpoint as their own. As author Cooper Thompson has written, “You must develop fluency in the language of feelings.”

People who help others who are less fortunate possess universally admired values: integrity, a sense of fairness and justice, compassion, and humility. Thinking and acting on the basis of those values builds trust, and trust is vital to achieving “customers for life”—which is how a company ensures long-term profitability. Community work brings enormous satisfaction, and satisfied employees result in satisfied customers.

Steve Knaebel retired as vice president of Mexico operations and Latin American distribution for Cummins Inc. in 2004. He was president and general manager of Cummins’ Mexican subsidiary for 17 years after working in Venezuela, Brazil, and Costa Rica. He founded the Mexico City branch of ADMIC—Dynamic Assistance to Micro-Entrepreneurs, Mexico’s Special Olympics, and Cummins Philanthropic Association. He served on the board of ACCION International.
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New Faculty Bring Added Expertise

Three senior professors—one each in the fields of accounting, organizational behavior, and marketing—joined the faculty this quarter, along with six junior faculty in tenure-track positions.

The School’s accounting group added David Larcker, professor of accounting, who publishes widely in the areas of compensation, managerial performance measures, and corporate governance. Larcker, most recently at the Wharton School of Management, is a leading empirical researcher in management accounting and will teach the MBA core course Managerial Accounting.

Organizational change expert Hayagreeva “Huggy” Rao joined the faculty from the Kellogg School of Management. Published widely in the fields of management and sociology, he studies the social and cultural causes of organizational change. He also serves as the associate editor of Administrative Science Quarterly. As professor of organizational behavior, he will teach Human Resource Management.

Marketers will want to take note of work by Baba Shiv, associate professor of marketing—on the characteristics of “mindless” or very-low-involvement decision making. Shiv, who earned his doctorate at Duke University and was most recently an associate professor and research fellow at the University of Iowa, examines the role of emotion in decision making, the neurophysiological bases of emotions, and unconscious mental processes. He will teach Advertising and Communications Management.

The School also added six assistant professors, all 2005 graduates of leading doctoral programs. John Hatfield is a graduate of Stanford’s Economics Department. His research involves issues in microeconomic theory, political economy, and public finance. Ger- ard Padró i Miquel completed his doctorate at the Massachusetts Institute of Technology. He researches issues in political economy and development economics. Both Padró i Miquel and Hatfield will teach the MBA core course Strategy in the Business Environment.

Joy Ishii and Michael Ostrovy are graduates in economics from Harvard University. Ishii researches issues in industrial organization and corporate finance. She will teach the MBA core course Finance. Ostrovy is primarily focused on game theory, industrial organization, and finance. He will teach the MBA core course Managerial Eco- nomics.

Harikesh Nair and Sridhar Narayanan completed doctorates in marketing at the University of Chicago’s Graduate School of Business. Nair researches issues in high-technology product markets, network effects, empirical industrial organization, and diffusion of technologies. He will teach the MBA elective course Pricing Strategy and Analysis. Narayanan focuses on new products and advertising, empirical industrial organization, and Bayesian econometrics. He will teach the MBA core course Marketing Management.

Professor Ken Singleton, the Adams Distinguished Professor of Management, joined Professors Mary Barth, PhD ’89, and David Kreps in June as a senior associate dean for academic affairs in the School’s Office of the Dean. Singleton oversees faculty in the finance area, the PhD Program, the Center for Global Business and the Economy, and research computing. Barth oversees the Center for Entrepreneurial Studies, the Sloan Master’s Program, and faculty in the academic fields of accounting, political economy, marketing, and operations, information, and technology. Kreps is responsible for the MBA Program, the Center for Social Innovation, the Center for Leadership Development and Research, and faculty in economics and organizational behavior. The three are supported by Christina Einstein and her staff. Professor John Roberts continues with Executive Education and as dean’s liaison with global partners and inquiries. Dan Rudolph, MBA ’81, oversees all operational aspects of the school.

A new book co-edited by Roderick Kramer explores the topic Trust and Distrust in Organizations. Kramer is the William R. Kimball Professor of Organizational Behavior at the Business School. With Stanford sociology Professor Karen Cook, he compiled important research on trust in organizations that illuminates the complex nature of how trust
develops, functions, and often is thwarted between people of unequal power or of similar power. Kramer and Dana Gavrili, MA ’04, wrote a chapter on recently declassified data from secret conversations between President Lyndon Johnson and his advisors that provide a rich window into a leader’s struggles with problems of trust and distrust in his administration.

Commitment to clarity in the classroom and accessibility outside of it were greatly appreciated by Business School students who in May presented their annual outstanding teaching awards to three faculty members.

MBA students cited lecturer Joel Peterson for his high commitment to personal values as they selected him for their program’s annual distinguished teaching award. Doctoral students honored Andrzej “Andy” Skrzypacz, associate professor of economics, for his exemplary teaching and service in the PhD Program. Students in the Sloan Master’s Program chose to honor Ron Kasznik, associate professor of accounting, who was cited for his clarity and enthusiasm. A member of the faculty since 1995, Kasznik previously had been honored by the Sloan classes of 2001 and 2003.

Ron Ih, Sloan ’05, had this to say about Kasznik: “While it cannot be said that what you taught was everyone’s favorite subject, it was your passion for the art of teaching and the enthusiasm you brought to the classroom that made you our favorite professor.”

Doctoral students, for whom faculty are career role models, nominated Skrzypacz for his commitment to research, advising, teaching, and community. “He has set such a high standard of dedication to his students that it is really hard for us to match,” said William Fuchs, PhD ’05, a member of the award review committee.

In accepting the honor, Skrzypacz, who joined the faculty in 2000, credited his own advisors at the Warsaw School of Economics and the University of Rochester for shaping his approach to the role.

Student testimonials to Peterson included one who said he had booked a 30-minute appointment with Peterson to discuss a business idea. “He ended up chatting with me for over two hours as if I were the only person on his calendar.”

Another student wrote that Peterson “brings an uncommon sense of purpose, clarity, accessibility, and presence to the classroom that motivates students.”

Peterson, the founder of a private equity firm, in turn thanked members of the MBA Class of 2005 for initiating the development of a new organizational behavior elective, Leadership Perspectives, which he co-taught in the fall of 2004 with Professor Charles O’Reilly. Previously, Peterson co-taught the elective course Principles of Real Estate Investing with Professor Steven Grenadier.
Explicit Comparisons May Scare Off Consumers

You walk into a drugstore and see the familiar sign inviting you to compare the price of the store’s brand of aspirin to a national brand. What do you do? According to Itamar Simonson, you may not go for the cheapest. Instead, you may choose the major brand because you perceive it as the less risky choice. Or you may not buy anything at all.

“Telling people to make comparisons, which is a practice that marketers use a lot, can be very uncertain because it can change the behavior of consumers in very fundamental ways,” said Simonson, the Sebastian S. Kresge Professor of Marketing, who studied the question with Utpal Dholakia, a marketing professor at Rice University. “It can easily backfire. Consumers may decide not to buy at all or to minimize what they perceive as a heightened risk instead of following the advice that the marketer had in mind.”

There are several possible reasons. Previous research by Simonson and others showed that in comparisons, consumers tended to put greater weight on the comparative disadvantages rather than advantages of each option. This can make the suggested option (in this case, the store brand) less attractive.

Although there have been many studies about comparative advertising, Simonson and Dholakia’s study was unique in that it examined the difference between implicit and explicit comparisons.

Implicit comparisons are made when a consumer takes the initiative to evaluate two or more products.

Explicit comparisons are those specifically suggested by the seller or advertiser. The product can be merely placed in close proximity to another product, inviting the consumer to make the judgment autonomously; or the consumer can be explicitly directed to make the comparison. It was the latter situation that the researchers in this particular study sought to explore.

Simonson and Dholakia set up two trials. The first one involved selling CDs on the auction site eBay. Researchers listed a number of top-selling CDs for auction—for example, The Wall by Pink Floyd—with an opening bid of $1.99. They then framed the auctions in two different ways. In some auctions, each CD was flanked by an auction of a CD of the same title with a starting price of 99 cents. In a second set of auctions, the CD was placed between two others of the same title with a starting price of $6.99 each. The opening bid of the middle CD was always $1.99.

The results were instructive: The $1.99 CDs flanked by 99-cent versions ended up fetching much higher prices than the CDs adjacent to the 99-cent offerings.

“We didn’t tell people to make a comparison; they did it on their own,” said Simonson. “And when people make these kinds of comparisons on their own, they are very influential.”

To test the effect of telling consumers to compare, there were two additional sets of auctions, again with starting prices of the adjacent CDs being either 99 cents or $6.99 and the middle CD starting at $1.99. In these groups, however, auction participants were explicitly told to compare the $1.99 price to its neighbors. The result was that prices of the adjacent CDs became statistically irrelevant to what was bid on the middle disc, and the buyers in general became much more cautious and risk averse.

“The mere fact that we had asked them to make a comparison caused them to fear that they were being tricked in some way,” said Simonson. So people waited longer to make the first bid—some of them even engaging in “sniping” behavior, which is to wait until the last possible minute before the auction closes to place a bid; they submitted fewer bids; and they were much less likely to participate in multiple auctions simultaneously.

“Being told explicitly to compare items had a dramatic effect on their bidding behavior,” said Simonson.
Presumed Truths Need Debunking

Offering incentive pay makes organizations perform better. Driving down product and wage costs is essential for success in low-margin businesses. Holding people accountable results in fewer screwups. All fundamental truths of business, right? Wrong, says Jeffrey Pfeffer. These are merely assumptions about what makes organizations competitive. Change your assumptions and you might find your company—and your profitability—improving, he says.

Pfeffer, the Thomas D. Dee II Professor of Organizational Behavior, has observed that numerous, often hidden, assumptions underlie the mental models or mindsets of senior leaders. These assumptions inform the design of specific business practices—the particular compensation mechanisms, performance management systems, new measurement practices, and the like that define an organization. If such underlying assumptions are correct reflections of what truly produces employee and organizational effectiveness, you’re golden. But if they turn out to be erroneous, you could be headed for trouble.

As Pfeffer notes in a recent article, the mental model driving Southwest Airlines puts employees first, customers second, and shareholders third. Company practices such as not serving meals or flying only 737s on short hauls are an outgrowth of this model, he argues. It’s the philosophy, not the techniques, that has led to Southwest’s growth and consistent profitability.

And it is why other airlines have not been able to replicate Southwest’s success, despite having copied their practices, Pfeffer observes. “When managers want different results, they need to do things differently. But doing things differently on a consistent, systematic basis requires thinking differently—something managers often don’t realize.”

Helping senior leaders understand why mental models affect organizational performance is a high-leverage place for human resource professionals to focus organizational interventions, Pfeffer maintains. And the first step is to sit managers down and get them to bring their assumptions to light.

“I use an exercise, for example, where I ask participants to associate various pilots’ wages with various airlines,” Pfeffer says. “People generally assign the highest wages to the airlines that are having the most trouble. Their assumption is that lower wages lead to lower overall costs—and thus greater financial stability and profitability.”

The next step is to evaluate whether or not the assumptions are correct. The equation “low wages equals lower costs,” for instance, is false, Pfeffer argues. “If you’re operating from that framework, you might decide that the only way to become competitive is to cut costs by reducing wages, as United Airlines has. But what’s been the outcome? United has experienced turnover, disaffected employees looking to sabotage the organization, and problems with customers. People are abandoning the airline in droves and the company is in a death spiral.”

Many beliefs that are taken for granted nowadays, such as the idea that incentive pay for teachers will improve educational outcomes and that creating strict accountability mechanisms improves performance, have turned out to be patently false. “The last 100 years’ worth of research shows that incentive pay does not produce better results in education, even though this is a lesson that seems to be continually relearned,” Pfeffer says. Similarly, systems designed to pin blame on individuals and departments for mistakes and problems only create a culture of fear and infighting. “Many managers are operating in ignorance,” he says.

The third step in the process? “Sometimes you have to be a bit courageous and go your own way,” Pfeffer advises. That’s what the natural foods grocery store chain Whole Foods has done. It has given up on the conventional theory that driving product costs as low as possible is critical for profitability in the grocery industry. Instead, it has embraced the seemingly counterintuitive idea that people actually will pay more for high-quality food they want to eat. This strategic insight has led the company to customize prepared food and even packaged goods selections. As a result, the chain has (as of summer 2004) a price/earnings ratio on its stock of about 40 and a five-year return to shareholders of more than 330 percent.

“Clearly, what we do comes from what and how we think,” says Pfeffer. “Intervening to uncover and affect mental models may be the most important activity HR can perform.” — MARGUERITE RIGOGLIO

Most Teachers Want to Return to Their Roots

Urban schools and those with lower-performing students tend to employ the least qualified teachers. But contrary to popular belief, this might not just be due to the fact that teachers prefer working with higher-performing kids.

New research shows that teachers seeking their first jobs overwhelmingly choose to teach in school districts near to where they grew up. Thus the fact that certain schools or areas aren’t producing a lot of college graduates—and that the college graduates they’re producing aren’t as skilled as the college graduates in other places—is leading to a “cycle of poverty” in education. “It’s not just the specific preferences of teachers for certain kinds of kids, but the fact that history plays a role in the labor market that is causing this,” said Susanna Loeb, associate professor in the Stanford School of Education.

Loeb, who teaches a class on economic approaches to educational policy analysis for the Business School, analyzed the choices first-year teachers made for employment in New York state. Among other results, she and her colleagues found that the labor market for teachers is quite local. A full 85 percent of teachers get their first teaching job within 40 miles of their hometown; 61 percent first teach in schools located within 15 miles of their hometown. And 34 percent of new teachers took their first job in the same school district in which they attended high school.

This is true for urban schools as well as suburban schools. Eighty-eight percent of teachers who grew up in an urban district first teach in a city school near to where they grew up. But this doesn’t produce nearly enough teachers to fill the jobs needed in urban schools—only 60 percent of city teaching jobs are filled by locals. This means that 40 percent of urban teachers need to come from elsewhere—and Loeb’s research also found that teachers who come from the suburbs are 10 times as likely to transfer out of urban schools after their first year than teachers who grew up in the city.

“How attached are first-time teachers to their hometowns? Very. Not only do teachers wish to teach close to home, they wish to teach in districts similar to the ones they graduated from. Teachers raised in a suburban environment are willing to travel 26 miles further to teach near to where they grew up rather than another suburban region. And first-time teachers from suburbia are willing to travel 37 miles rather than teach in an urban school.”

“Because urban areas don’t produce that many teachers, they have to bring in teachers from other places—and those teachers tend not to stay,” said Loeb.

“Ideally, we would get more local people interested in teaching,” Loeb said. Some states have established “alternate route” programs that take individuals from other professions and put them through minimal training that qualifies them to teach. Such people eventually get a teaching credential, but they don’t have to get fully certified before they begin teaching. “The good news is, there are a lot of people willing to do this. We don’t know whether they’re doing a particularly good job as teachers, but these programs have been successful in increasing the pool of people interested,” said Loeb.

Other possibilities include creating scholarships for young people from urban areas who are interested in teaching and—in a more long-term strategy—improving the educational achievements of children in the community by encouraging them to finish high school, go to college, and return to their roots as teachers.

“There is also a good deal to be said as well for traditional policies aimed at making these schools nicer places to teach in, where teachers would want to go,” said Loeb. “Anything that helps improve the quality of teaching jobs in the schools that have traditionally been difficult to staff is a step in the right direction.” Now is a time of change in the teacher labor market, with large numbers of teachers preparing to retire. “So it’s an interesting time to take a look at whether there are things we can do,” said Loeb.

— Alice Laplante
**Education**

**Workforce at Risk; Colleges at Fault**

The United States once produced the highest percentage of bachelor’s degrees in the world but now trails behind five other countries, including Canada, Japan, and South Korea. Nearly 80 percent of the nation’s post-secondary students attend nonselective four-year and community colleges, and less than half of those students graduate. What’s going on in American higher education?

After eight years studying how students, parents, teachers, and administrators understand high school and college policies and practices through Stanford’s nationally funded Bridge Project, Michael Kirst, a Stanford professor of education who also holds an appointment at the Business School, thinks he has a pretty good idea. Today an estimated 88 percent of high school students aspire to attend college, the highest percentage in the nation’s history. Yet their desire is being undermined by a disconnect between what postsecondary schools expect from students and what high schools prepare students for. The most pronounced effect is on first-generation college goers—many of them students of color—and on the economically disadvantaged.

Kirst’s research with the Bridge Project, a large, six-state study he began in 1997 under the auspices of the Pew Charitable Trusts and the U.S. Department of Education, has focused on numerous realities affecting students who head for community colleges and four-year schools that admit almost everyone who applies. “Given that these schools comprise about 85 percent of the nation’s postsecondary institutions, we’re talking about the majority of college students in America. It’s the bulk of the country’s labor force, yet it’s the group that the *New York Times* and *Washington Post* never write about,” Kirst says. “Why?” he asks pointedly. “Because it consists mostly of minorities and lower income students.”

Kirst has published his findings in numerous articles, a popular monograph entitled *Betraying the College Dream* (2003), and a book, *From High School to College* (2004). In his most recent article to emerge from the Bridge Project, co-authored with Andrea Venezia, senior policy analyst at the National Center for Public Policy and Higher Education, Kirst relates that students in the study are so poorly prepared for their college experience that half end up in remedial courses, creating huge psychological and logistical impediments to graduating. “Many can’t handle the work or get discouraged and end up just dropping out,” he says.

Currently, he notes, 44 percent of undergrads in America attend community colleges, up 10 percent in the past decade. For these students, as well as those who attend nonselective four-year colleges, the real issue is not whether they will be admitted, but whether they can pass a placement exam to exempt them from remedial courses. At root is the fact that students who are not in the top 15 percent of their high school class do not receive clear or adequate information from teachers and counselors about what they need to know and do to succeed in college. They also are not told by anyone—including colleges themselves—that there will be a placement test once they get there, much less what the exam consists of. “Even for high school teachers, the content of such exams is a mystery,” says Kirst.

Mistakenly believing that they are adequately prepared for college, students who plan to attend broad-access institutions typically glide through their senior year of high school. “They avoid substantive courses that could help them prepare, while honors students are busy taking Advanced Placement courses that show them what college work is all about,” says Kirst.

Honors students also tend to get clearer signals from teachers and administrators about college preparation and admissions in general: They receive more counseling attention and are presented with more opportunities to meet with recruiters and visit college campuses. Economically disadvantaged students or first-generation college goers whose parents tend to lack experience and information regarding college, are often left without this information.

One answer to the college preparedness issue, Kirst suggests, lies in better communication and coordination between the governing boards of high school and broad-access institutions in each state. “In the 1990s, 49 states established K–12 standards and tests, but only one—Oregon—confessed with postsecondary systems on what those standards should consist of,” Kirst notes. “Clearly, K–12 tests and courses need to be coordinated with college placement exams.”

Other incentives Kirst suggests are financial aid policies that reward students for completing numerous college preparation courses or teacher professional development efforts to help increase the probability of students meeting placement test standards.

Kirst warns that the situation will only get worse because the postsecondary enrollment is shifting to community colleges. If the American labor force is not to become terribly crippled, K–12 and postsecondary education need to come together, he urges. “K–12 has typically taken the blame for the lack of educational preparedness of our youth, but it’s time for broad-access colleges to take responsibility in the matter, too,” Kirst says.

— Marguerite Rigoglioso

He and other venture capitalists say they are driven partly by high oil prices but also by the unmet demand for power in India and China.

Still, clean-tech startups garnered less than 3 percent of venture capital in 2004. One investor, Vinod Khosla, MBA ’80, said, “I have the sense that there are a lot more niche-sized startups out there than big ones, but some great opportunities do exist.”

**What Will Mom Say?**

**WHEN THE BUSINESS SCHOOL put together a panel on franchising for MBA students, a large crowd turned out to hear alum franchisees including Jim Yang, MBA ’97, who opened a Cold Stone Creamery. “Neither my wife nor my mom was pleased with the whole thing because they were embarrassed,” he warned students.**

**John Zoglin**, MBA ’84, who left Hewlett-Packard to open a Sylvan Learning Center, added: “My mom would agree with yours. She loved me being at HP; she didn’t want me off being a tutor. But I was so much more proud when two Stanford MBA s put together a panel on franchising.”

**How Green Is My Silicon Valley?**

Northern California may be known for its environmental organizations, but that’s not why Silicon Valley venture capitalists are tainting themselves green, reports the New York Times. “The reason we’re allocating dollars to [alternative energy companies] is we think we can deliver an attractive return,” said Ira Ehrenpreis, MBA/ JD ’96, a venture capitalist at Technology Partners in Palo Alto.

**A Horse Not Named Sally**

Garrett Redmond, sep ’74, of Paris, Ky., is suing the Jockey Club for rejecting his application to name his thoroughbred racehorse Sally Hemings after the slave reputed to be Thomas Jefferson’s mistress.

Redmond said the name was appropriate because the filly’s mother is named Jefferson’s Secret and the sire is named Colonial Affair. The Jockey Club, which regulates the naming of thoroughbreds, rejected the name, according to the Associated Press, on grounds that it might be offensive to “persons of African descent and other ethnic groups.”

According to court filings, the club initially said Redmond would have to get Hemings’ written permission to use the name for his horse. Redmond wrote back, “I will gladly get her permission if you can dig her up!”

**Viral Marketing to Health Care Pros**

When two Stanford MBAs, one with a medical degree, link up, you might expect them to know about viral marketing. Whether they had it all plotted out in advance or not, Jeffrey Tangney and Dr. Richard Fiedotin, both MBA ’99, scored big when they put a comprehensive drug guide online in 1999 and emailed 300 physician friends. Within six months with virtually no spending on marketing efforts, their Epocrates service had tens of thousands of registered users.

Today, according to Business 2.0, the guide is the clear leader
with health professionals who save time and mistakes by tapping medical information on handheld digital devices. The company reported an income of $25 million in 2004 and said labeled advertising on the website had come to dwarf subscription revenue from 470,000 health care professionals.

**Controller Westly Joins Governor’s Race**

Cali[ifornia State Controller Steve Westly, MBA ’83, announced in June his run for governor in 2006. The former eBay executive also donated $10 million to his campaign.

Westly, a Democrat, toured the state with Gov. Arnold Schwarzenegger, a Republican, in 2004 to support restructuring California’s debts. Since then, Schwarzenegger’s popularity has fallen. Polls conducted in May showed Westly to be somewhat less well known to Democratic voters than State Treasurer Phil Angelides, another announced candidate for the Democratic nomination, but either would beat Schwarzenegger in hypothetical election matchups. “Obscurity allows Westly to shape his own image,” the Los Angeles Times said.

**She Shops for Shop-A-Phobes**

After running a market research firm for two decades, Julie Kaufman, MBA ’82, applied her experience to consumers who hate markets—women for whom clothes shopping is a nightmare. She goes through clients’ closets, assesses what they need, takes pictures of what they should keep, and takes them shopping, according to the San Jose Mercury News. For those overwhelmed by shopping, she suggests off-hours visits to small shops. For those “turned off by rampant consumerism,” she suggests supporting local boutiques or fair-trade, USA-made, or union-made sources online.

**Khokhraykov Holds Russian Press Card**

Russian newspapers recently reported the expansion of media ownership by PromSvyazCapital Group, a Moscow-based publishing and news distribution company whose president and CEO is Pavel Khokhraykov, MBA ’04. The group expanded from 90 to 100 percent its ownership of the national newspaper Trud. It also owns more than 75 percent of Argumenty i Fakty, a leading weekly newspaper, and controls the publishing house Media-Pressa.

**Habitat for Humanity Chooses Reckford**

Habitat for humanity International, one of the country’s most successful charities, has selected Jonathan T.M. Reckford, MBA ’89, as its new chief executive. Reckford, who most recently was executive pastor at Christ Presbyterian Church in Edina, Minn., was picked to lead the charity partly because of his business background that “will help Habitat navigate the economy and business climate,” said former U.S. President Jimmy Carter, who served as honorary chair of Habitat’s succession planning task force. Reckford’s resume includes Goldman Sachs, Walt Disney, Circuit City, and Best Buy companies.

**India’s MBA Interns Takes On China**

The hottest internships for MBA students from top-rated schools this summer were not on Wall Street or in Silicon Valley but in India, says the New York Times. “India has come to symbolize globalization, and I wanted to participate in the workings of the global economy,” said Caton Burwell, a second-year MBA student from Stanford who interned at Infosys Technologies, an outsourcing firm with a campus in suburban Bangalore. “Being here is a powerful experience; it is impossible not to think differently,” Burwell said. “To come here, meet these people, and to return home and turn your back on outsourcing is hard.” Infosys received 9,600 applications for 40 intern spots at its Bangalore headquarters.

**Tax Benefits of Employee Discounts**

“This is not your father’s Oldsmobile. It’s your cousin Gilbert’s employee discount,” General Motors told Americans last summer, and a sizeable number of consumers went for it.

What makes the idea of an employee discount more attractive than a plain old end-of-year sale? Psychologists might say envy, but Business School economics Professor Paul Oyer told the Washington Post about another benefit: a smaller tax bite. At least in the case of big-ticket items such as cars, hotel rooms, and university tuition, he said, giving employees a discount, rather than increasing their salaries, saves the employees income taxes. Employees—or for that matter, customers—also might not mind a discount expiring as much as taking a pay cut, Oyer said. Extensive research shows losses loom larger than gains in most people’s minds.
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Robert L. Joss, Philip H. Knight Professor and Dean

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