One year can change everything. It did for Mike Cagney, MSx Class of 2011, and now cofounder and CEO of SoFi. The idea for disrupting the student loan market hit him during finance class. He worked with classmates in entrepreneurship to revise and refine the business. He raised seed capital from alumni in Silicon Valley. Today, SoFi is the largest provider of student loan refinancing with a revolutionary approach to underwriting and a unique investment model that creates a positive social impact.

How will MSx change your world?

Be Disruptive.
The occasion of the 25th reunion, however, is one of the most special in many ways — in part, because it is a residential reunion at the GSB where our alumni embrace dorm life again; although, admittedly, the new and improved dorm life of the Schwab Residential Center (and soon, Highland Hall) does not quite replicate their earlier experience! But mainly, this reunion is special because our alumni are ready to share their many life experiences, both joyful and sorrowful. These experiences have led them to where they are — in many cases a quite different place from what they imagined as graduate students. Moreover, one of the most incredible aspects of the GSB is the willingness of our community to share stories with one another. It is a hallmark of our collaborative culture that endures decades beyond graduation. And at the 25th and 35th reunions, in particular, I am always moved by the stories I hear. Stories of loss, of finding a passion later in life, and of personal struggle — these are stories that our alumni share with one another (even if they haven’t seen each other for years) and that they are willing to share with very few others.

At this point in their lives many of our alumni are finally ready to write the essay that we pose as part of the admissions process: “What really matters most to you and why?” For many, the answer to that question revolves around people and impact. Not surprisingly, the people who matter most to them are loved ones, family, and friends, as well as the communities, groups, and interests they’ve been committed to over the years. And the impact they have had or wish to have on those people and organizations may be the most valuable reward of all. For the GSB, our reward is seeing so many generations of alumni throughout their lives, their careers, their volunteerism, and their philanthropy reaping their own rewards from the positive impact they have had on the lives of others.Δ

In Pursuit of a Rewarding Life

I have found that GSBers spend a lot of time thinking about what makes for, or will make for, a rewarding life. In part, of course, this is because many GSBers are in the fortunate position of having lots of options in career and life choices. The greater the wealth of opportunity, the more agonizing it is to figure out how to optimize.

As dean I have the fortunate vantage point to watch this calculus as it shifts over the lifetime of a typical alumnus. While our students are still in school, they spend an inordinate amount of time (too much, I sometimes think) on where they will put their feet next. They have put so much hard work into generating an academic record and career trajectory that would get them into the Graduate School of Business in the first place that they want to be sure to use their graduation from the business school to pivot in just the right direction. Understandably, they have a broad definition of what it means to live a rewarding life. While it is always dangerous to generalize, at this stage financial success and security often loom large, but meaningful work, fulfilling relationships, and career growth are clearly on their minds too.

It is ironic how much effort goes into selecting that first job because as early as their first reunion, many graduates are rethinking the roles they took straight out of business school. In many ways it is too much to expect that any particular job could withstand the burden of delivering all of the dreams they had in mind while in school. For a myriad of reasons, their first year on the job causes them to reassess what they want out of a job and a career and to reconsider their definition of the “reward” they are seeking. By the fifth reunion, again generalizing excessively, life events — marriage, children, houses, and so on — and the resulting questions about how to “have it all” often dominate the reunion chatter. Many times picking the one “right” path eventually gives way to pursuing and prioritizing a portfolio of rewards when our alumni realize having it all at the same time seems out of reach.

Garth Saloner is the Philip H. Knight Professor and Dean of Stanford Graduate School of Business. Follow him on Twitter @Saloner
Nonconformist entrepreneurs go against popular wisdom. “But they are much more likely to survive as a result.” —William Barnett

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Reward

We explored the theme of risk in our last issue: how to identify it, how to understand it, and how to mitigate it. This time we look at one of the best possible outcomes of taking a big risk, the reward. As you’ll see in the pages that follow, rewards can come in many forms: There are those we chase, those we earn, and those that come to us after hardship and struggle. Our stories look at the satisfaction we derive from a job well done or a life well lived, as well as the external rewards we receive like money and fame. We cover compensation, benefits, and bonuses; what we value in financial and other markets; and how we regard certain characteristics in potential hires and entrepreneurs, as well as in goods and services. At Stanford Business publications, our discussions on this theme have
also helped us think more deeply about what we offer our magazine readers, as well as the millions of people who read and view our stories on our website, on YouTube, and now in syndication in English and Chinese. In all of these places our content is built around the phrase “stories that teach.” That is, we require that every piece helps readers and viewers in their professional and personal lives, or helps them better understand the world. The feedback we have received suggests this strategy is resonating. In the two years since we relaunched the magazine, we have won multiple regional and national awards and recognition for our work in print and online. But the far greater satisfaction comes from the knowledge that by sharing and disseminating the research and ideas generated here, we are doing our part to contribute to the educational mission of the university. As always, let us know what you think at StanfordBusiness@Stanford.edu

— MICHAEL FREEDMAN, EDITORIAL DIRECTOR
“The minute you have a backup plan, you’ve admitted you’re not going to succeed.”

Elizabeth Holmes, the billionaire founder of health care startup Theranos, discusses leadership, the value of role models, and how to scale success.

Stanford Business Online:
gsb.stanford.edu/insights

YOUTUBE
Negotiate to get (more of) what you want
Margaret Neale answers common questions about how to craft a successful negotiation strategy, such as whether you should make the first offer, and how to know when you should walk away from a deal.

Stanford Business Online:
gsb.stanford.edu/insights

WEB
Should your corporate boards overlap?
The audit and compensation committees are some of the most time-consuming of any board. But researchers say there are also pros to having board members on both.

Stanford Business Online:
gsb.stanford.edu/insights

WEB
Do computers know you better than your friends?
Artificial intelligence can draw inferences about a person as accurately as a spouse.
“Companies should try to find ways to signal competence and worthiness to their employees” that go beyond compensation.
—Jeffrey Pfeffer
WILLIAM BARNETT
“Businesses entering a frenzied market were less likely to succeed.”
When it comes to a startup’s success, timing is often everything. That’s why it is common for entrepreneurs — especially tech entrepreneurs — to rush to enter markets that are in the midst of a boom, usually presaged by a spectacular event such as a billion-dollar IPO. Entrepreneurs reasonably assume the risk of failure is lower when entering then, and that’s why high-profile successes can trigger an explosion of interest in a particular area.

Of course it works both ways. If a market has a large negative event, like a high-profile bankruptcy, entrepreneurs are far less likely to enter that market because it is seen as too risky. Big splashy events — both negative and positive — can lead to an exaggerated view of the underlying market and that causes entrepreneurs, as well as venture capitalists, to flock or flee en masse.

William Barnett is the Thomas M. Siebel Professor of Business Leadership, Strategy, and Organizations at Stanford GSB. Follow him on Twitter @BarnettTalks or read his blog at www.barnetttalks.com

Photograph by Amy Harrity
Nonconformists face more scrutiny by investors and potential partners, but “are much more likely to survive as a result.”
If you are promoting, advocating, or hiring someone, you ought to choose a person with a track record, right? How then to explain the rookie phenomenon in sports? A college player gets a huge contract to turn professional, while a top-performing veteran gets a merely large one. The veteran is the better bet; experience is a better predictor of success than potential. Yet sports team owners often favor incoming rookies, sometimes to the owners’ profound regret. One example is the case of LSU quarterback JaMarcus Russell, signed by the Raiders to a $60 million-plus deal, only to be released three years later.

The explanation lies in the power of potential and the allure of uncertainty, suggests research by Stanford Professor Zakary Tormala, done along with Jayson Jia and Michael Norton. People often are more intrigued by unknown outcomes, or mysteries, says Tormala, who discusses the findings here.

Zakary Tormala is an associate professor of marketing at Stanford GSB. Jayson Jia received his PhD from Stanford GSB in 2013.
Tell us what your research says. In a series of experiments set in different contexts, we found that high potential can be more appealing than equally high achievement. Our studies uncovered this in situations ranging from basketball player evaluations to hiring decisions, to salary offers, to grad school admissions recommendations. We also saw it in perceptions of artistic talent and in people’s intentions to try a restaurant. In general, potential seems to engender greater interest than achievement.

Why? This seems counterintuitive. Isn’t it less of a risk to hire or reward someone with a track record? It was counterintuitive to us at first. It seems objectively more impressive to actually achieve something great than to have mere potential to do so. But there is a fairly robust finding in the psychological literature that uncertain events and outcomes can stimulate greater interest and information processing — more thought — than more certain ones. So when potential is being compared with achievement, the uncertainty surrounding potential can make it more engaging, or maybe even pleasurable, to think about. It’s as if people engage more as they try to work through the uncertainty and figure out what the truth will be.

The basic idea is that when all the available information about a person is positive and compelling, imbuing that information with some uncertainty by describing it in terms of potential — “This person could become great!” rather than “This person has become great!” — can get people to attend to the information more and ultimately be more persuaded by it.

In most of our studies we tried to equate the level of potential and achievement. For example, in one study we showed the exact same (impressive) stats for a hypothetical NBA basketball player and merely described those stats as predictions or as actual performance records. We found that participants thought the player was more likely to end up an All-Star one day when they’d seen predicted rather than actual stats.

“The future of your organization starts here”

Executive Program for Nonprofit Leaders (EPNL)
August 2–12, 2015
Application deadline is April 30.
www.stanfordepnl.com

Executive Program in Social Entrepreneurship (EPSE)
The 2015 program is full. 2016 offering to be announced.
www.stanfordepse.com

Stanford’s social innovation programs bring together high-impact leaders of organizations from around the world for an immersive learning experience. Drawing on leading-edge research and the teachings of Stanford MBA faculty, participants will strengthen their ability to spur innovation within their organization and form a network of global leaders.
**What are the practical implications?**

If you’re recommending someone for a job, a promotion, or admission to graduate school, it would be wise to highlight that person’s potential. Our take is that framing your support for a person, a restaurant, a cause — and many other things — in terms of potential as opposed to achievement could make your case more persuasive.

We found that even seemingly minor word choices made a difference. Participants in one study evaluated a job applicant more favorably when he had performed well on a test called the “Assessment of Leadership Potential” rather than one called the “Assessment of Leadership Achievement.” So someone who scores well on a Scholastic Aptitude Test might be perceived as a stronger candidate than someone who scores well on a Scholastic Achievement Test. A subtle shift in word choice can have a big impact on interest and engagement.

But of course there are limits. For example, when the evidence for something is weak — say, you can only muster a modest case for why a restaurant is good — the preference for potential seems to disappear. Again, getting people to tune in and engage more with your message is good as long as your message is compelling.

In follow-up research with Daniella Kupor, a doctoral student at Stanford, we also found that the preference goes away in people and situations in which tolerance for uncertainty is particularly low — for instance, among people who say that they don’t like surprises or uncertainty. When that’s the case, we have even seen a slight preference for achievement.

**Is it possible for people to be aware of this bias in themselves and counter it?**

In the sports world, as we’ve already discussed, people signing contracts could be aware that they might be overweighting potential. So, practically speaking, hiring managers could ask themselves if they’re leaning toward a candidate with a lot of potential over one with experience, and why.

But it’s not clear that the draw of potential always leads to mistakes. Judgments against accomplishments could be mistakes, but there are situations in which you can imagine that investing in potential makes perfect sense — for instance, where doing so is less expensive, or where a person’s expected trajectory is steep. Perhaps someone’s perceived upside is so great that the possible rewards outweigh the risk. An individual with a rare talent in sports, art, or music might fit this category.

**Is it possible this is just a pro-youth bias at work?**

We examined that possibility by having people consider an applicant with high potential and an applicant with high achievement who were the same age. The person with high potential still won out. But we think it’s possible people might confer greater future potential to someone who can perform at a young age. Recent research by Andy Poehlman at Southern Methodist University and George Newman at Yale has shown this type of effect.

**What was your most interesting experiment?**

We designed several ads in Facebook promoting a comedian who was growing in popularity at the time of our study. One ad said, “Critics say he has become the next big thing,” and another said, “Critics say he could become the next big thing.” The “potential” ads produced more than three times the click-through rate and five times the fan rate.

These findings run counter to some of your earlier research showing that people tend to prefer certainty. What’s different here? Yes, in research I’ve done with some of my other collaborators, we found certainty is a catalyst that transforms attitudes into action. For example, people are more likely to vote for a politician when they feel certain about their preference for him or her, and are more likely to buy a product when they feel certain about liking. Here, with the work on potential, it seems that uncertainty can get people excited and thinking more. But taking meaningful action (e.g., hiring a person) might tend to require some level of subsequent certainty that results from that more extensive thought process. This is a question we are exploring.

What we can say for now is that in at least some cases, there’s something that outweighs the comfort of certainty. That something is the excitement people feel about potential.

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A SLAM DUNK LeBron James, in 2003, was the first pick in that year’s NBA draft.
The importance we place on money affects our lives in myriad ways, from where we live to the kind of job we choose to the amount of time we spend on work or leisure. Conventional wisdom — as well as economic theory — says the more of something we have, the less of it we want, but that’s not the case with money, where more is rarely enough.

Now, research from Jeffrey Pfeffer, a professor of organizational behavior at Stanford GSB, may shed some light on why money can be addictive and how that addiction may be contributing to increasingly high CEO compensation packages. The paper “When Does Money Make Money More Important?” shows that money earned through labor is more important to people than money that comes from other sources (such as investments or a winning lottery ticket). And the more money paid for each hour of work, the more important that money becomes.

The paper is the result of research Pfeffer did with Sanford E. DeVoe, an associate professor at the University of Toronto’s Rotman School of Management, and Byron Y. Lee, an assistant professor at Renmin Business School, Renmin University of China. It was inspired by a quote from Daniel Vasella, the former chairman of Swiss pharmaceutical giant Novartis AG, who declined a $78 million severance package in 2013 after a public backlash over it. In an interview with Fortune magazine in 2002, Vasella had said, “The strange part is the more I made, the more I got preoccupied with money. When suddenly I didn’t have to think about money as much, I found myself starting to think increasingly about it.”

Jeffrey Pfeffer is the Thomas D. Dee II Professor of Organizational Behavior at Stanford GSB, where he has taught since 1979. He has published extensively in the fields of organization theory and human resource management.

Illustration by Shout
“No one wants to be paid below the median because everybody thinks they’re above average.”

Pfeffer saw that quote again a few years ago, and it got him and his research colleagues thinking that not only does money have an ability to fulfill real needs — such as buying food, shelter, and clothing — but also it signals worth and competence. People generally believe their pay level communicates how much an organization values them. “It occurred to us that it was quite possible money operated differently from other things we acquire, and that the more money you had, the more important it became,” he says.

To test their theory, the researchers examined the effect of changes in the amount of money received on changes in the importance of money over time. They relied on the British Household Panel Survey, a longitudinal survey from 1991 to 2009, that asked, among other questions, how important “having a lot of money” was on a scale of 1 to 10, with 10 being “very important.” Pfeffer and his colleagues calculated an estimated hourly wage rate, assuming that if money signaled someone’s value, that signal would be best observed in the income earned per hour. They also analyzed non-labor-related sources of money, such as rent, savings, and investments, as a contrast to money received from an employer.

The analysis showed that the higher the hourly rate of labor income, the more importance the person placed on money. The same was not true for money received through other sources.

In a second study, 71 students from a large Canadian university were shown how to make origami paper planes and given five minutes to make as many as they could. Participants received an evaluation sheet that gave them a “very good” rating on both quality and quantity, and then received an envelope containing either $1 or $10. Some participants were told they had received the money randomly; others were told they received it based on their work. Afterwards, participants were asked questions about how valuable money was to them. The results showed that people receiving the money randomly, no matter the amount, didn’t differ in their rating of the importance of money. But those who received an extra $10 for the quality of their work rated money as significantly more important than those participants who received an extra $1 based on work quality.

A third study involved 41 students from a large Canadian university, who were also asked to make the paper airplanes. They were all paid $10 afterwards, but some were told it was based on the quantity and quality of their planes, while others were told the payment was random.

Those who believed they received money based on the quality of their work subsequently created significantly more planes than those who believed the money was randomly awarded.

Pfeffer said the three studies make one point: Money that comes from the work we do makes that money more important to us. “The money in that case is a signal of competence and worth, and that makes it addictive, because the more you have, the more you want,” he says. Understanding that might help explain why increasing numbers of top executives are receiving outsized compensation packages. “No one wants to be paid below the median because everybody thinks they are above average,” says Pfeffer. “There’s a compensation rat race going on, but the centerpiece of the story is that the more money people get, the more salient that money becomes.”

Although Pfeffer doesn’t have a prescription for ending money addiction, he does believe that if society really wanted to put an end to over-the-top executive compensation, “We would do what we have done with other addictive substances — tax it. That’s what public policy has done in the past to restrict the use of legal drugs like alcohol and nicotine — we tax them,” says Pfeffer. Taxing enormous compensation packages at a higher rate would create a disincentive for the payouts and might slow the compensation rat race.

This research also has implications for rank-and-file compensation. Because companies generally reward good employee performance with money, that money “becomes equivalent to the love of the organization,” says Pfeffer, and it will never be enough because it is so strongly connected to people’s feelings of self-esteem and self-worth. “Companies should try to find other ways to signal competence and worthiness to their employees,” he says, such as helping them find purpose or meaning in the work itself, rather than the compensation.
Six Entrepreneurs Discuss their Challenges and Accomplishments

BY ERIKA BROWN EKIEL

“What Matters Most Is Having a Support System”

Roys Gureli is the founder and CEO of Annelutfen, a Turkish online retailer specializing in items for babies such as diapers and formula. The idea for Annelutfen, which roughly translates to “Mom, please,” began as a class project at Stanford. Noticing that Turkish women did not have many of the same conveniences as American mothers, Gureli decided to build her business in Istanbul, where she was raised. Gureli received her MBA from Stanford GSB in 2011.

In 10 words or fewer, what is the big idea behind your business? Empowering women by delivering baby products to their homes in Turkey.

What was the most difficult lesson you have learned on the job? Never attempt to establish a business without a cofounder. As a first-time entrepreneur, I thought I could do everything myself. It took me much longer to do things than it would have if I’d had a cofounder. Moreover, starting up in Turkey was difficult because the culture is very different than in Silicon Valley. In Turkey, no one is looking to help. People are very secretive and do not share information. I prayed for mentors to educate me. After a year of starting the company, I found a great group of mentors, who helped me with different topics throughout this amazing journey.

What advice would you give other entrepreneurs on how to build a great business? What matters most is having a support system around you: cofounder, team, mentors. Having a network of mentors and people you can brainstorm with is very important. It’s better to build that network early on rather than later — ideally before you even start the business.

What is your greatest achievement? Starting this company was the toughest thing I’ve ever done. It is growing day by day and people really like it. It didn’t come easy; it has tears and blood in it.

What impact would you like to have on the world? I want to empower women in Turkey. There are many underprivileged women here who are abused at home, brainwashed, and not allowed to go to school. There are glass ceilings in politics and business. I really want to be a role model.

Why are you an entrepreneur? Changing things is really exciting. I love that you can see the result of your actions immediately.

What businessperson do you most admire? I admire Sheryl Sandberg for encouraging women all around the world to take on leadership roles and advance in their careers while maintaining a family.
Focus on the Things that Matter

Tristan Walker is the founder of Walker & Company, which makes health and beauty products for people of color, and Code 2040, which fosters and supports minority engineering and tech talent. A former executive from Twitter and Foursquare, Walker pitched multiple ambitious, high-tech ideas to the venture capitalists at Andreessen Horowitz before discovering a relatively low-tech business that was in front of him all along: the Bevel line of shaving products. He received an MBA from Stanford GSB in 2010.

What is the best advice you’ve ever received? Actor and producer Tyler Perry said he realized his potential as an entrepreneur after he figured out that the trials you go through and the blessings you receive in life are the exact same things. The trials you go through are blessings in disguise. It has given me a lot of peace.

What was the most difficult lesson you have learned on the job? The importance of authenticity. After leaving Foursquare, I spent seven months as an entrepreneur-in-residence at [venture capital firm] Andreessen Horowitz. I wasted a lot of time in the beginning. I tried to think of the most ambitious thing I could do and pitched them on building a bank, tackling diabetes, even disrupting freight and trucking. Ben Horowitz was honest with me and told me I wasn’t the best person in the world to solve those problems. In retrospect, I was trying to make other people happy versus pursuing things where I was an expert. I thought about doing hair products for women of color and talked myself out of it because I worried what people would think of me.

The difficult part of that lesson was in not being real. Throughout my life I heard a lot of yeses, from getting accepted to boarding school to interning on Wall Street, then going to Stanford and working at Twitter and Foursquare. All of a sudden I was hearing, “No. This isn’t a good idea.”

What advice would you give other entrepreneurs on how to build a great business? You need to pursue the idea for which you are the best person in the world to solve that problem. It can be freeing. Even though other people may not see it and may tell you that you are wrong, if you are connected to that thing and know you are right, you can succeed. If you are doing something different, someone else with that same idea but with more authenticity will crush you. Jonathan Ive from Apple said in an interview that customers can discern care for a product and they can also discern carelessness. When you are authentic, you care more and that comes through in the product and the brand in such a compelling way that customers will believe it.

If there was one thing that has enabled you to be successful as an entrepreneur, what would it be? I would not say I have been successful yet. We still have a lot of work to do. My brother taught me early on that you don’t get what you don’t ask for. I always go the extra step. If someone else asks once, I will ask six times until I get the thing I want. That has led to more opportunities as well as more innovation.

One example is our logo. We have printed the Bevel logo on our razor heads. It’s a curved metal piece inserted into another metal plate. When we were first designing it, manufacturers told me it was impossible. I flew to China to meet with our manufacturing team, and we sat together in a room for 24 hours until we came up with the most compelling compromise. It was just a matter of asking, “Why not?” enough times.

How do you come up with your best ideas? I come up with a lot of ideas and 99% are crap. When I hire, I find people who are so good at what they do that they filter my ideas down to the good ones. Together we can get to a place that is reasonable and realistic but also pushes boundaries of innovation to not be safe.

What is your greatest achievement? Not forgetting who I am and where I came from. Some people let success get to their heads. I have tried to stay true to the values and principles that are important to me: my faith, family, and work. Anything outside of that is a distraction that prevents me from doing what I want.

What was your first paying job? I cleaned toilets at a summer camp when I was 14. It sucked! I decided I never wanted to do that ever again. It was right when I was about to go to boarding school in Connecticut. I grew up in Queens. At boarding school I saw how the other half lived, and it opened my eyes to what opportunity might look like.

How do you achieve balance in your life? I used to try to do too much. Now I know I have to focus on the things that matter. For me it’s faith, family, and work. I just took a five-week paternity leave. There is only 100% of me. When I try to make it 110% it’s crazy. The three parts of my life are rarely in perfect balance. Sometimes it’s 50%, 40%, 10%. It is only when you’re not honest about those percentages to yourself or others that problems happen.

What is the best business book you have read? Orbiting the Giant Hairball. It was written by a guy who made Hallmark cards. It’s about maintaining creativity in a corporate structure.
In 10 words or fewer, what is the big idea behind your business? Teaching people to create success with ease — without striving and sacrifice.

What is the best advice you’ve ever received? Transformation is 20% insight and 80% action. I heard that from Shirzad Chamine, the author of Positive Intelligence [and a 1988 MBA alumni of Stanford GSB]. That insight gets me out of my head and into my body or taking action. It helps me to trust the wisdom of my body rather than just my mind.

What was the most difficult lesson you have learned on the job? The most difficult lesson I have had to learn and relearn is about striving and my ego. Things don’t have to be so hard. I worked in finance for 10 years before starting my own business. I finally had the freedom to work from the kitchen table and wear sweatpants, yet I didn’t allow myself to do it. I used to think “working” meant sitting at my computer. But I get so many creative ideas while hiking or doing yoga.

What advice would you give other entrepreneurs on how to build a great business? Follow your heart and intuition rather than your ego, mind, and wallet. Many entrepreneurs start off doing that, but they listen to people who tell them what they “should” be doing, and they cave on their vision and what lights them up the most. If you are not having fun, it means your ego is too involved. You need to get clear about what you want and visualize what success looks like to you. Athletes use visualization all the time. There is tremendous power in the mind-body connection. You need to get crystal clear and specific about what you want. You need a deadline and clear, detailed goals. You need to see it with pictures, images, and symbols. And you need to feel it in your body. For me, I get goosebumps.

If there was one thing that has enabled you to be successful as an entrepreneur, what would it be? Vulnerability. Being honest with myself and open with others has created influence with others, which I didn’t expect. In one example I led a high-end retreat for moms when I, myself, was a new mom. I ended up exhausted and resentful. On the last morning of the retreat I shared that feeling with everyone, and it opened up a great dialogue. A weight lifted off my shoulders. Being vulnerable can be a release valve.

What impact would you like to have on the world? I want to empower and inspire millions of women.

What do you think is the greatest innovation in the past decade? Mindfulness in business. I know, it isn’t exactly an innovation — more like the rediscovery of ancient traditions.

Vanessa Loder is a cofounder of Mindfulness Based Achievement, a company that provides in-person and online educational tools to help women lead more purposeful professional lives. Through meditation, visualization, and coaching, Loder and her cofounder, Lisa Abramson, teach women how to tap into their intuition, let go of expectations, and get more of what they want in life. She graduated from Stanford GSB in 2007.

“I Want to Empower and Inspire Millions of Women”
“You Have to Thrive on Challenges”


In 10 words or fewer, what is the big idea behind your business? Give fans access to live events worldwide.

What is the best advice you’ve ever received? Irving Grousbeck said there is a risk of not following your passion. It is hard to be the best at something unless you enjoy doing it. I appreciate this more as I have gotten older. When you are young as an entrepreneur, work seems like a chore or a means to an end. You think, “Gee, I just want to make a lot of money and then I can retire and go fish all the time.” Building a business takes passion, resiliency, and belief. It’s very personal. StubHub was a lucrative exit but I can’t imagine waking up and not doing this anymore. The only commodity we have that is truly perishable is time. You may make a trillion dollars, but you only get to be young once.

What advice would you give other entrepreneurs on how to build a great business? Be prepared for a long haul. You need resilience, drive, and determination in the face of constant setbacks. You have to thrive on challenges. Fighting through those obstacles, you can feel like Andy Dufresne in The Shawshank Redemption, chipping away at the wall a little bit each night only to fight through a river of sludge on the other side. You need to do whatever it takes to overcome the problem.

If there was one thing that has enabled you to be successful as an entrepreneur, what would it be? You have to be an iconoclast. Question authority. Be an independent thinker. Take an unpopular position and drive it through. Before StubHub there was a common belief that ticket scalping could never be legitimized. The former CEO of Ticketmaster told me it would never happen. I was thrown out of league offices by the NFL and NBA. But I was sure there was a way.

How do you come up with your best ideas? I take it back to first principles: If this didn’t exist, how would you set it up? You can’t get tied down by what you are used to seeing. Start with a blank sheet of paper, rather than thinking in an incremental fashion where you are constrained by how things look today.

Why are you an entrepreneur? The only person I want to work for is myself. My grandparents were entrepreneurs. My mom’s father learned to build homes in the Depression. My dad’s father was one of 10 children and built his own company. I have had great role models. I like to control my own destiny.

What was your first paying job? I was a camp counselor in Maine. I managed a bunk of six 10-year-old kids. It was great practice for negotiating in business and persuading and managing a lot of people. You can’t tell a bunch of kids what to do. You have to teach them empathy and give them bonuses and incentives, like pizza.

“Optimize for the Experience”

Ann Scott-Plante is a cofounder of Wello, a service that connects people with personal fitness trainers through online video chat. Scott-Plante and her friend Leslie Silverglide started Wello together in 2011 as MBA students at Stanford GSB, and then ran the company for three years before selling to Weight Watchers, where Scott-Plante is now vice president of product.

In 10 words or fewer, what is the big idea behind your business? We make it easier for people to get and stay fit.

What is the best advice you’ve ever received? A close friend told me years ago that whenever you have to make a decision, you should optimize for the experience. You can never know in advance what will be the outcome of a decision. You can know whether what you are choosing will be an amazing journey full of challenges and rich experiences. That is how I decided to start a company after business school instead of going back to consulting. I didn’t know at the time whether we would be sold to Weight Watchers or fall flat on our faces. Amelia Earhart said, “Adventure is worthwhile in itself.”

What was the most difficult lesson you have learned on the job? I have heard 1,000 times that “it’s all about the people.” A lot of people focus on what happens when you hire the wrong person. But it’s just as bad when you lose someone great. When you are an entrepreneur, your company is your baby. You are willing to stay up 24 hours a day and sacrifice your life to make it work. It’s easy to forget that it’s not the same for those who are not the founder. You can’t expect people to have an undying devotion. It’s easy to burn people out.

What advice would you give other entrepreneurs on how to build a great business? As a first-time entrepreneur, what scared me most was not knowing whether I had the skills to do it. You learn a lot on the job. My advice is to just take the leap. You don’t need to have it all buttoned up. You need the confidence to be comfortable with uncertainty.
The biggest thing is questioning. Why are things done this way? Is there a better way to do something? Can I do it? Do I want to do it?”

If there was one thing that has enabled you to be successful as an entrepreneur, what would it be? I’m incredibly competitive. I want to excel at any given time. I am constantly trying to learn and do better. I never reach the perfect state.

What is your greatest achievement? The fact that we built something that helps people is something I am incredibly proud of.

What values are important to you in business? Humility. Being able to laugh at yourself and acknowledge your mistakes and realize there is so much more you can do. Also, having a sense of purpose. I started a business to do good in the world.

The biggest thing is questioning. Why are things done this way? Is there a better way to do something? Can I do it? Do I want to do it?

What impact would you like to have on the world? To help people live healthier lives in a way they feel is positive. With Mixt Greens we gave people easy access to a healthy lunch: a kickass salad that is just as good as a cheeseburger. With Wello, we recognized that the majority of people abhor working out and see it as a negative experience. We bring real people into your living room to bring accountability, motivation, and fun to your workout.

What is the best business book you have read? I recently read Mindset by Carol Dweck. Some kids are told they are smart so they don’t push themselves. Others are taught the growth approach, in which you learn and push yourself to be better. I’m always trying to create an environment where people are encouraged to grow and pushing them to do so.

Leslie Silverglide is a cofounder of Wello, a service that connects people with personal fitness trainers through online video chat. Silverglide and Ann Scott-Plante started Wello together in 2011 as MBA students at Stanford GSB, and then ran the company for three years before selling to Weight Watchers in 2014 — the first non-franchise acquisition in the weight loss giant’s 50-year history. She is now a vice president there.

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Before retiring last year, Scotty McLennan spent 14 years as the dean for religious life at Stanford University, where, among other things, he interviewed the Dalai Lama and worked to create a campus meditative center, which opened last summer. As he returns to teach at Stanford GSB this spring, the Unitarian Universalist minister sat down to discuss the benefits of quiet reflection, and why people do not need to check their religion at the door when they go to work on Monday morning. Here are edited excerpts of the conversation:

When visiting Windhover contemplative center, which you had a key role in creating on the Stanford campus, I noticed that some visitors could not help but chat with each other, and one was even texting on her mobile phone. Why is it so difficult for us to be still, even in a center intended for that purpose? Windhover is meant to be a technology-free zone, knowing that our mobile phones and other electronic devices can not only be addictive, consuming our attention, but also can keep us tense, stressed, and even unable to relax and sleep, as much current research is showing. They can also be disturbing to others.

Of course we’re social beings, so chatting with each other and chatting online are normal and routine. But meditation is meant to break the normal and the routine in service of radically expanded breadth and depth of experience, of enhanced awareness, of mindfulness. It’s not easy, though, and it takes discipline, precisely because it takes us far from our normal and routine life. You actually have to sit still and do nothing. Ideally, you have to concentrate on only one thing, like following your breath in and out, rather than being scattered and consumed by many things.

Scotty McLennan is a minister, lawyer, author, and the former dean for religious life at Stanford. He and his mentor, the late Rev. William Sloan Coffin, were the inspiration for the red-headed Rev. Scot Sloan in Garry Trudeau’s “Doonesbury” cartoon. As a lecturer in political economy at Stanford GSB, McLennan uses literature to help students explore the moral and spiritual issues in their careers.
It is hard for me to imagine that you, who played ice hockey in high school at the Hotchkiss School in Connecticut (and was on the freshman and club hockey teams at Yale), would be able to stay still during meditation. I was an activist in many ways — physically, intellectually, politically, spiritually. But learning how a great activist like Gandhi found his strength in quiet meditation helped me try it out, and the Hindu priest I lived with one summer in India insisted on it as a daily exercise. Practice makes perfect. Or makes it easier, since it’s certainly never been perfect for me. The more I meditated, the more I learned the value of stillness in many realms: listening to others more patiently and empathetically, smelling the flowers rather than missing them in the rush, becoming slower to anger, breathing intentionally when I feel stressed, feeling connected to the larger universe or ultimacy.

Meditation is a central practice for many Buddhists and Hindus, and we in America often attribute it to traditions other than Judaism, Christianity, and Islam. Yet, all religious traditions (and many humanistic, secular ones) have something akin to meditation, especially through various forms of centering prayer, but also through silent recitation of scripture or poetry, veneration of icons, handling prayer beads, rocking rhythmically, mental visualization, muscle relaxation, contemplating nature, and enjoying art, to name a few techniques and methods. No one has a lock on quietude, reflection, stillness, and serenity.

I think some people might be surprised to know that a minister teaches at a business school. How do these lessons translate to business? Business people spend the majority of their waking hours at work, and many of them want to find it meaningful. Many also want to conduct their business affairs ethically, and most of us worldwide learn our ethics through our religious traditions or through philosophical understanding of morality that we inherit from our families, education, and surrounding culture.

I wrote a book with a colleague at Harvard Business School where we tried to help readers integrate their spirituality and ethical commitments with their daily work lives. Ultimately, I believe this leads to more successful businesses and to greater satisfaction of customers and other stakeholders.

There seems to be a renewed interest among business people to make space for finding their inner calm, such as through the practice of mindfulness. But how do you convince CEOs and other high-achieving leaders that it is a worthwhile thing to do? It doesn’t take much to convince business leaders and others that they should take a coffee break from time to time. Taking 10 or 15 minutes off ultimately increases productivity rather than decreases it. How much more useful and fulfilling to stimulate one’s “relaxation response” through a meditational or prayer practice during one of those break times. If nothing else, there’s good medical evidence that it helps you to reduce stress, limit negative emotions, lower blood pressure, restore calmness, and increase your overall sense of well-being.

You are just finishing up a sabbatical before you return to lecture at Stanford GSB. How did you spend your time off? What will you teach? I’ve used my leave to travel and write and explore areas of interest that I’ve had for a very long time but not been able actively to pursue, like listening to classical music, spending time outdoors in nature, learning about digital photography, watching great movies, and catching up on developments in constitutional law. And I’ve been developing two new courses. One is tentatively titled Business Biography: Finding Spiritual Meaning at Work. We’ll look at biographies of respected people in business to see how they integrate what ultimately really matters to them with their business careers, and how they fail in this regard.

In the other course, I want to help students understand the etiquette of doing business in quite different cultures: say, Japan, China, India, Egypt, Israel, Russia, Brazil, and Great Britain. They will learn about the deeper cultural ethos from which that etiquette emerges, and finally be introduced to the dominant religious traditions, which I believe underlie both etiquette and ethos.
Which biographies are on your short list?
One is serial entrepreneur Noah Alper’s *BUSINESS Mensch* (2009). Among other ventures, the natural foods chain Bread and Circus, now owned by Whole Foods, was founded by Alper, as well as the Noah’s New York Bagels chain, which he sold to Einstein Brothers for $100 million in 1995. Alper tried to run his bagel business on traditional Jewish religious principles, including keeping kosher. He took the ethical dimensions of Judaism very seriously, as well. He describes in detail, with examples, how important being a mensch (an honorable, decent person) is to earn employee dependability and customer loyalty. He cites the importance of keeping the Sabbath holy — shuttering the business for a full day each week. He also stresses taking personal time every day, like a scheduled half-hour walk, for personal reflection.

Another biography I’m considering is basketball coach Phil Jackson’s *Eleven Rings: The Soul of Success* (2013). Jackson brought his Zen Buddhist ideas and practices into his work with his teams, the Chicago Bulls and the Los Angeles Lakers. He explains how Buddhism helped his teams move from being disconnected and ego-driven to being unified and selfless. He tried always to relate to his players as full persons as well, not just as cogs in a basketball machine, helping them develop their personal moral qualities and spirituality. He incorporated mindfulness meditation into practices and used rituals to infuse work with a sense of the sacred.

What are some ways people can integrate religion into their work lives? In the book I coauthored with Laura Nash of Harvard Business School — *Church on Sunday, Work on Monday: The Challenge of Fusing Christian Values with Business Life* (2001) — we distinguished between espoused religion, which we counsel against bringing to work, and catalytic and foundational religion. The catalytic is personal and includes practices like meditation and prayer, while the foundational emphasizes generalized statements of religious wisdom that cross boundaries and traditions, like the Golden Rule and Ten Commandments or stories of love and sacrifice like that of Rev. Martin Luther King. It can be very important and helpful to bring catalytic and foundational religion to work, from the CEO level on down, while espoused religion should be left at the door.

We also cite business educator and consultant Stephen Covey’s emphasis on practicing spirituality at work as part of “sharpening the saw,” one of his *Seven Habits of Highly Effective People*. Since spirituality, often directly derived from one’s religion, lies at one’s core and involves commitment to one’s value system, it is critical to nurture those sources as much in the workplace as in private life. That can be done through the likes of personal rituals, applying scripture to workplace situations, and developing corporate credos and sagas that can affect a business’s culture.

What lessons does literature offer to the contemporary workplace? Hermann Hesse’s title character in *Siddhartha* struggles throughout his life to combine business and spirituality. He becomes a rich merchant who is at first unattached to material success, concentrating on putting his customers first and acting ethically with all stakeholders. But then he becomes covetous, succumbs to the “soul sickness of the rich,” and becomes not only mean-spirited but also suicidal. Late in the book he finds equilibrium in a daily business of ferrying travelers across a river, providing spiritual mentoring to some, but finding that most people simply want good transportation services.

Bharati Mukherjee’s *Jasmine* portrays a Hindu immigrant’s journey through a variety of jobs and experiences as she seeks the American Dream from Florida to New York to Iowa to California. Takeaways include how to balance new-world selfishness in personal freedom with old-world selflessness in familial duty; examining whether there is a stable self (or Self) to rely upon in each of us or an ever-changing identity as we change our environments; the foundation of morality in karma, or reaping what one sows; and the struggle between fate and will.

Name a CEO who is successfully bringing his or her spirituality to work every day. Jeff Weiner, the CEO of LinkedIn, has spoken and written about how he has been influenced by the Buddhism of the Dalai Lama. He considers the number-one management principle in his own work life and for his company to be managing compassionately. This goes beyond empathy to walking in another’s shoes and taking collaborative action together.

He is convinced that compassion can be taught not only in school but also in corporate learning and development programs. A fellow minister who heard Jeff Weiner speak on “The Art of Conscious Leadership” at the 2013 Wisdom 2.0 conference in San Francisco described Weiner as making the most inspiring contribution to the conference. Not only was his spiritual commitment to his employees and customers strongly evidenced but also he has a business leadership dream to expand compassion worldwide through his powerful social media company.
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“We can now answer one of the fundamental questions of management:

What makes some employees very productive and some unproductive?”

—Harikesh Nair
“Companies can now track, measure, and assess employees much better than before.”
DATA

The Human Resources Revolution

A marketing professor explains how workplace analytics can transform the way companies hire, evaluate, motivate, and retain employees.

BY HARIKESH NAIR

We’ve all seen by now how big data and analytics play out in consumer-facing industries, in which consumer behavior is now tracked and measured better than ever. But quietly, behind the scenes, there is a revolution also taking place within the workplace itself. Thanks to the widespread adoption of software and database systems within companies, and improvements in tracking technology, companies can now track, measure, and assess employees much better than before.

This opens up opportunities for social scientists to peer within the firm — treated for a long time as a “black box” — and study its inner workings with real data. By measuring effort and productivity, we can now manage and reward talent better. More important, we can now quantitatively assess employee productivity and answer some fundamental questions of management: Just what exactly makes some employees very productive and some unproductive? Is it innate ability, training, incentives, peer effects, managerial investment, or a combination of all?

Harikesh Nair is a professor of marketing at Stanford GSB. His research is in the area of marketing analytics.

Photograph by Gabriela Hasbun
This is human resources’ big data moment. And because it touches on the key resource a firm has at its disposal — its people — it touches every functional area within the firm, I believe that quantitative analysis of within-firm behavior and the associated insights it will provide — what we refer to as workplace analytics or people science — will transform how we evaluate, motivate, hire, and retain people in companies in the future.

In a sign of things to come, some forward-looking firms have already put in place initiatives that use data to assess employee productivity and improve employee hiring and retention. Google’s People Science team, for instance, has quantitatively analyzed what makes some Googlers better managers and what types of pay (salary vs. bonus) employees value. Biogen has established a People Strategy and Analytics team that uses predictive models for understanding patterns of attrition, performance, and recruiting among its employees. Workplace analytics capabilities are now being incorporated into enterprise resource planning software, such as Oracle’s Human Capital Management suite, that helps firms collate employee data, build models using it, and use it to source, acquire, and retain key talent.

For several years now I have been conducting research in this area with Sanjog Misra, a marketing professor at UCLA Anderson School of Management. We have focused in particular on developing new methods that leverage the large quantities of within-firm data that’s now available to answer questions about the design of incentives within firms. We have also looked at how firms can align quantitative incentive design with other functions like marketing and employee hiring and firing.

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**DESIGNING A BETTER COMPENSATION SYSTEM**

In one study, conducted in collaboration with a Fortune 500 contact lens manufacturer, we looked at internal data to understand how to design better compensation incentive systems within a large sales force.

Although there is a large amount of academic theory on the question of whether and how incentives like compensation work, much of this theory has been just that: theory. The availability of data on contracts and outcomes on employees has now provided unprecedented access to help us understand this problem empirically and to see which theories work and which don’t.

This is important because most of the marketing in business-to-business contexts is done by salespeople. Compensation policy is one of the key levers available to influence them. Though it is complex, getting the structure right is critical.

At the initial stages of our collaboration with the firm, the company used an incentive plan that involved a salary and that paid commissions on sales if the agent’s sales per quarter crossed a quota and fell below a ceiling.

Like most firms, the company faced significant challenges in formulating and optimizing the right quota-plan for its needs. For starters, the quotas needed to be fine-tuned to reflect the significant differences in sales agent productivity. A quota that is too low is always “beat,” providing little room for incentives. A quota that is too high demotivates agents because they feel it is unattainable.

The company also needed to fine-tune the ceiling, which helps the firm avoid paying out large commissions due to reasons unrelated to the sales agent’s efforts — for example, the number of new prescriptions can be suddenly high merely because a new Wal-Mart opened in the agent’s territory. The challenge is that if the ceiling is set too low, the company reduces the scope for incentive pay; if the ceiling is too high, the company may end up paying out too many commissions.

A third challenge was determining the right periodicity of the new plan — that is, how often commission awards were paid out. Commissions were paid out based on the total sales achieved during an entire quarter. The result is a potential inefficiency: If quotas are very low and easy to beat, agents may find it optimal to shirk in the early months and make up sales later in the quarter. The shirking may be high for the most productive agents, as they know they can easily make up the sales in the last month. This suggests that paying out commissions based on a weekly or monthly sales achievement cycle may reduce shirking. But how much the improvement may be is hard to predict.

Still another aspect relates to the broader question of how to design incentive systems that do not create their own distortions in behavior. Other scholars have pointed out that incentive systems have hidden costs because smart agents can game the system. For instance, many companies pay sales agents commissions only if sales exceed a quota. But if a sales agent feels he or she has no way of making the quota, or has already beaten it, he or she will tend to reduce effort. Or the sales agent may push customers to buy at a time when it suits the agent, which may result in a lost customer.

Previously, many thought these distortions were intellectually interesting, but perhaps not too big in practice. One insight from our recent empirical work is that such distortions may be so large that they could in some instances actually overwhelm the gains from incentive provisions altogether.

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Like most firms, the company faced significant challenges in formulating and optimizing the right quota-plan for its needs.
A NEW PLAN YIELDS STRONG RESULTS

To analyze the problem, we built statistical models of the sales agents at the company to create several scenarios involving changes to the three key features of the plan: the quota, the ceiling, and the quota horizon. The models combined economic theory on how workers responded to incentives with real data on observed past behaviors to develop a predictive analytic model for each agent in the firm.

We worked with the firm to narrow the range of plans to a set that would be feasible for implementation. A new plan was selected in consultation with senior management, sales managers, salespeople, and legal and human resources teams.

The plan that was implemented featured low quotas and no ceilings. It also included a monthly incentive based on a straight commission (a scheme where there is no ceiling and the commission rate does not change with the sales achieved). It was put in place across the United States in January 2009.

The results were extremely strong. The companywide effect of the new compensation scheme was about a 9% increase in overall revenues. Comparing 2009 versus 2008, the new plan generated an average increase in revenues of $79,730 per agent per quarter.

Overall, our results suggest that the new plan was a success on several other dimensions as well. First, it was more efficient. One way the bad incentives in the old plan could have worked is to simply induce a shift in sales away from early months in the quarter to the later months, with no effect on overall quarter-level sales. The results from the new plan showed that the old plan’s effect was not simply to shift sales across months of the quarter in this manner, but to also reduce the overall sales in a quarter. In the new plan, sales went up in every month of the quarter compared to the old plan. This shows that the shifts across the months seen in the old plan were also accompanied by a net reduction in total achievable sales. In other words, the old plan was inefficient.

Second, most agents increased their effort and output.

Third, the new plan eliminated the large swings in sales in the old plan. These had been driven by the incentives the old plan induced for agents to change their effort when they are close to or far away from quota. Importantly, eliminating this volatility also reduced inventory holding costs and streamlined supply-chain and capacity planning. Finally, data from surveys conducted at the firm showed that employee satisfaction with the new plan was high, arising primarily from the reduction of quotas and the subjective assessment of productivity under the old regime.

HOW DATA AIDS DECISION MAKING

Overall, we believe the kind of approach we developed has the potential to significantly improve the practice of compensation design. It is rigorous and practical, utilizes internal databases, and is built on sound theory. It also showcases the value of combining models with large datasets for improved decision making.

This kind of research also leads to another key theme in organizing workplaces: the alignment between functional areas within the firm — in this case, between sales, marketing, and hiring and retention of employees. In many instances, incentives are not balanced within a firm because these decisions are split across various units, and each has different goals.

It does not have to be this way. In recent research that followed this study, we discussed how hiring the right set of sales agents affects the company’s ability to provide incentives — while at the same time providing the right set of incentives to help hire the right set of agents. In this sense, the right strategy is to make them co-dependent.

The advantage of being close to the data is that we can quantify the extent to which such alignment helps improve outcomes for the firm.

As these studies have demonstrated, analytics and data have the potential to transform the study of work. This is the promise of the new people science. Firms headed by forward-looking business leaders who understand the value of science and its ability to improve practice will benefit the most from this promise. Such leaders will be early adopters of these tools and will use them to make their workplaces more efficient. And in the long run, most firms will likely follow suit.
One of the biggest trends driving consumer consumption during the past decade is the demand for “real,” or authentic, items. Farmers’ markets, microbreweries, and all kinds of artisanal crafts, to name a few examples, have jumped in popularity. But does that mean consumers will value more highly those products they perceive as being more genuine as opposed to mass-produced? The answer, according to research by Stanford GSB Professor Glenn Carroll and colleagues, is yes. “In advanced consumer economies, consumers are buying on the basis of their interpretation of the product and its story,” he says. For example, Carroll says that when microbreweries began to proliferate, they were viewed as being more authentic by consumers who felt they were reestablishing tradition and creating community.

Molson Coors tried to tap into that zeitgeist, marketing a new line of beers under the name of Blue Moon Brewing Company. The Blue Moon line was a hit with leading-edge consumers — until they realized that it was actually produced by one of the biggest beer companies in the world. “It happens time and time again,” says Carroll. “Customers discover that a product is made by a large corporation, [and] they then view the product as inauthentic.”

Carroll, along with Balázs Kovács from the University of Lugano, Switzerland, and David W. Lehman from the University of Virginia, in Charlottesville, chose the dining domain to examine the link between authenticity and consumers’ value ratings. They picked restaurants because diners frequently remark on the authenticity of the food and the atmosphere; because consumers’ perception of restaurants varies so widely; and also because there are plenty of public sources that provide information on restaurants, which allows for controls of price, type of cuisine, and, most important, the quality of the food, service, and décor.

They wanted to test their hypotheses that organizations referred to as authentic by consumers will generate higher consumer value ratings, and that independent and family-owned organizations are more likely
TAPPING INTO THE ZEITGEIST
Fermentation tanks at Dogfish Head Brewery in Delaware
The potential increase in restaurant revenue as a result of a one-star increase on a public review website

When going out for a meal, consumers often value authenticity over the restaurant’s cleanliness.

BY EILENE ZIMMERMAN

Consumers have a well-documented and growing attraction to products and services they see as “authentic,” and research shows they place a higher value on such businesses. But how far are they willing to go to gain a real experience? Research by Stanford GSB Professor Glenn Carroll focuses on the restaurant industry and asks whether consumers, in their pursuit of authentic food, disregard other important factors, like cleanliness.

The idea for the research came from a story Carroll and his co-researchers, David W. Lehman of the University of Virginia and Balázs Kovács of the University of Lugano, Switzerland, remembered about Chinese restaurants in Los Angeles in the 1980s. These restaurants routinely stored ducks by hanging them from their necks at room temperature for extended periods. The restaurants were cited at the time for violating California’s health and safety codes, but many of their customers strongly objected to the crackdown, even though it was done to protect their health.

Their reactions were rooted in claims that this method of cooking and storing ducks had been practiced for more than 4,000 years — and during that period had fostered one of the world’s largest populations, says Carroll. “This showed that violating rational norms — like the Los Angeles health code — might be OK, even rewarded at times, if a restaurant is seen as authentic.”

9% of unlimited length. Other researchers have shown that a one-star increase on the website can increase revenues for a restaurant by 5 to 9%.

When Carroll and his cohorts crunched the data, they confirmed that even when controlling for quality, restaurants regularly referred to in consumer reviews as authentic received higher ratings on average, often by a half star or more. They also found that family-owned and independent restaurants received higher consumer value ratings than chains or corporate-owned restaurants. And while it does appear that having multiple cuisine categories decreases consumers’ perception of authenticity, Carroll says that this has less of an effect than they had anticipated.

In the second study, 210 participants were shown photos and short descriptions of fictitious restaurants using certain clues like which restaurants were family-owned, which were independent, and which had specialized cuisine.

They were then asked to estimate the likely cost of a dinner — one meal and one drink — at the restaurant, and rate the quality on a scale from 1 to 5, with five being the highest rating. They were also presented with a list of 30 authenticity keywords and were asked to divide them into two groups: words that are likely to appear in a review of this restaurant, and words that are not likely to appear in a review. Finally, they were asked to estimate how much they would like the restaurant and its food, on a scale from 1 to 5, and were allowed to include half points.

The second study affirmed the findings of the first study while also revealing a new one: Perceived price doesn’t have an impact on value ratings. Carroll and his coauthors suspect that this may be because people account for prices when figuring out the overall rating value.

The takeaway for businesses, says Carroll, is that authenticity has real value for consumers. “This isn’t our study that determines what is authentic — here we have systematic evidence for authenticity. And we found that if a product, service, or organization is regarded as authentic, it will lead to higher ratings,” he says.

The authors then used an algorithm that assigned a number between 1 and 100 to each of the keywords. The highest scoring word was authentic, with 95 points. Other words with high points include genuine, real, skilled, legitimate, and traditional. Words with lower scores included scam, phony, false, inauthentic, and deceptive.

Using the authenticity scale, the researchers analyzed 1,271,796 online reviews posted on a public reviewing website between October 2004 and October 2011 on 18,869 restaurants in three major cities — Los Angeles, Dallas, and New York. On the website, reviewers rate restaurants from one star to five stars and write reviews of unlimited length. Other researchers have shown that a one-star increase on the website can increase revenues for a restaurant by 5 to 9%.

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Using the authenticity scale, the researchers analyzed 1,271,796 online reviews posted on a public reviewing website between October 2004 and October 2011 on 18,869 restaurants in three major cities — Los Angeles, Dallas, and New York. On the website, reviewers rate restaurants from one star to five stars and write reviews of unlimited length. Other researchers have shown that a one-star increase on the website can increase revenues for a restaurant by 5 to 9%.

When Carroll and his cohorts crunched the data, they confirmed that even when controlling for quality, restaurants regularly referred to in consumer reviews as authentic received higher ratings on average, often by a half star or more. They also found that family-owned and independent restaurants received higher consumer value ratings than chains or corporate-owned restaurants. And while it does appear that having multiple cuisine categories decreases consumers’ perception of authenticity, Carroll says that this has less of an effect than they had anticipated.

In the second study, 210 participants were shown photos and short descriptions of fictitious restaurants using certain clues like which restaurants were family-owned, which were independent, and which had specialized cuisine.

They were then asked to estimate the likely cost of a dinner — one meal and one drink — at the restaurant, and rate the quality on a scale from 1 to 5, with five being the highest rating. They were also presented with a list of 30 authenticity keywords and were asked to divide them into two groups: words that are likely to appear in a review of this restaurant, and words that are not likely to appear in a review. Finally, they were asked to estimate how much they would like the restaurant and its food, on a scale from 1 to 5, and were allowed to include half points.

The second study affirmed the findings of the first study while also revealing a new one: Perceived price doesn’t have an impact on value ratings. Carroll and his coauthors suspect that this may be because people account for prices when figuring out the overall rating value.

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In past research, Carroll and his collaborators found that consumers regularly gave higher ratings to restaurants that they considered authentic. This time the researchers wanted to learn more about how consumers form those opinions.

It’s more difficult to judge the authenticity of a restaurant than, say, that of a diamond ring or a piece of art. With those, “it’s an issue of provenance, and it profoundly impacts that item’s value. A fake Picasso, for example, is worth a lot less than a real one,” says Carroll. “But whether or not a Chinese or Thai restaurant is authentic is in the eye of the beholder.”

In the latest research, Carroll and his colleagues posited that consumers apply one of two social-based codes when forming opinions about a restaurant. One code is rational and scientific, known as an imperative code. The other, known as an interpretive code, is context-based. In the case of restaurants, the imperative code is found in the establishment’s compliance with local health regulations. The interpretive code is more concerned with if and how a restaurant conforms to cultural norms, making it “authentic.”

In the case of the Chinese restaurants, two social codes conflicted — hygiene and authenticity. Carroll and his colleagues wondered if that was true more broadly and which code, hygiene or authenticity, held the most sway with consumers. To find out, they analyzed consumer reviews of restaurants in Los Angeles County posted on a popular online restaurant review site as well as health inspection data about the restaurants from the county’s Department of Public Health.

The 9,734 restaurants that qualified for the research sample were reviewed on the site at least once and had a definite match to the public health department’s inspection record.

To measure the consumer value of restaurants, the researchers used the number of stars assigned to a restaurant by a reviewer. For hygiene, they looked at the restaurants’ latest health grades from the public health department (posted prominently on the window as A, B, C or F) and created a hygiene score for each review by analyzing the text. To gauge authenticity, they did the same thing, creating an authenticity score for each review by searching for keywords related to authenticity and inauthenticity. “Then we compared the effects of the health ratings and authenticity scores on consumer value ratings of each restaurant,” says Carroll.

What they found was that authenticity, the interpretive social code, tended to trump the importance of cleanliness, the imperative code. Although consumers had negative things to say about restaurants with low health grades, they tended to overlook low grades when the authenticity of a restaurant was high. In the end, unhygienic but authentic restaurants were valued more similarly to their hygienic counterparts. Less hygienic and less authentic restaurants, however, had a significantly lower value than their hygienic counterparts. The research showed that when social codes conflict, consumers tend to apply one and sidestep the other.

Although this study focused on food, authenticity is in play in markets for many other products and services. For businesses producing anything that is seen as authentic, this research shows that perception has real value, says Carroll. It may have so much value, in fact, that buyers will overlook flaws. “Authenticity seems to buffer businesses against negatives,” he says. “It makes their products more appealing and, at the same time, can buy them some insurance.”
In a results-driven world, corporate executives often live and die by the sword. They earn huge bonuses when profits are climbing, and they can lose their jobs quickly if results turn sour. But when a company plunges into a true crisis, research suggests that offering executives the right kind of bonuses, and even some forgiveness for bad results, can be the key to company survival.

Those two ideas may come as a jolt. Critics and business theorists have long argued that bonuses, especially those tied to short-term results, tempt executives to gamble with shareholder money. As the housing bubble neared its disastrous peak, Wall Street executives pocketed huge bonuses by chasing the higher returns on increasingly toxic mortgage securities. When the bubble burst, banks like Citigroup and Merrill Lynch all but collapsed, yet the executives kept their payouts.

**TEMPTATIONS**

Some Corporate Crises Require Big Bonuses

Although they may tempt executives to gamble with company money, they can also make sense in some cases.

**BY EDMUND L. ANDREWS**

In a results-driven world, corporate executives often live and die by the sword. They earn huge bonuses when profits are climbing, and they can lose their jobs quickly if results turn sour. But when a company plunges into a true crisis, research suggests that offering executives the right kind of bonuses, and even some forgiveness for bad results, can be the key to company survival.

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**BALANCING MOTIVATIONAL RISKS**

In a crisis, bonuses can drastically increase the temptation to try a Hail Mary pass. The executives know they’re likely to be fired if things don’t improve quickly. If they bet the company and lose, they’ll get fired anyway. If they bet the company and win, they’ll be treated as heroes and pocket their bonuses.

Those kinds of motivational risks pose a dilemma for shareholders. They don’t want desperate risk taking, but they do want serious commitment and bold decisions.

A research paper, coauthored by Peter DeMarzo at Stanford GSB, offers suggestions on how corporate boards can use bonuses to balance those competing needs.

When a company gets into real trouble, its future may depend on the expertise and herculean efforts of its existing executives. It may need the CEO’s loyalty and dedication. And that may require dangling bonuses that are two or three times bigger than normal — but only if the payouts are deferred until the company returns to unquestionable health.

DeMarzo acknowledges that this can sound unfair. If a CEO has just presided over a bad stretch, why offer forgiveness or even more rewards? The reason, he says, is that the CEO may still be the company’s best chance of survival. And if that’s the case, shareholders need that executive to throw everything he or she has into restoring the company’s health.

DeMarzo, who teamed up with Dmitry Livdan at the University of California’s Haas School of Business and Alexei Tchisty at the University of Illinois at Urbana-Champaign, describes what resembles a slow-motion poker game: shareholders and the board of directors on one side of the table, and hired managers on the other side.

The unspoken premise is that executive loyalty and good intentions come with a price. If the executives don’t have enough “upside” potential, they won’t work as hard to achieve big profits. And if the company falls into a crisis, executives may put top priority on saving themselves or looting the coffers.

The scholars’ recommendations are based on a branch of business research known as optimal-contract theory. Their models are abstract, but the logic is pretty straightforward.

The scholars agree that bonuses tempt managers to take risks at the expense of shareholders. In a crisis, however, shareholders need executives who have a stake in the company’s long-term success. A CEO who expects to be fired, or who won’t reap any reward for saving the company, is likely to keep his head down and just try to collect his paycheck.

To keep executives from assuming they are about to be fired after a patch of bad performance, companies must “forgive and forget” some of the time. This selective forgiveness avoids putting the firm in the hands of the “walking dead”: managers who assume they are about to be fired. It keeps them guessing and gives them a reason to stay committed if a true crisis arrives.

Peter M. DeMarzo is the Mizuho Financial Group Professor of Finance at Stanford GSB and faculty director for educational technology.

Illustration by Anna Parini
“When things are going really poorly, you lose motivation and control over people if you punish them too severely.”

LARGER, LATER BONUSES
Perhaps the most startling suggestion, however, is on how to treat top executives when a crisis does arrive. At that point, it may make sense to substantially increase performance incentives. That may seem perverse, since the executives in charge may be partly responsible for the problems. But they may still be the company’s best chance for recovery. The key is to offer long-term incentives, which pay off only if and when the company survives.

“During bad times, when things are going really poorly, you lose motivation and control over people if you punish them too severely,” DeMarzo says. By contrast, big incentives pegged to the company’s future health can spur the management team to put everything it has into a turnaround.

“If things go well, the manager will get a huge bonus and have a big stake in the firm. He will care about the firm’s survival,” DeMarzo adds.

Big bonuses got a bad name after the financial crisis, especially since the biggest bonuses had been going to Wall Street executives who had a major role in the crisis itself. Many were outraged when American International Group awarded some $165 million in retention bonuses to executives just after the federal government had bailed it out.

DeMarzo says the size of the AIG bonuses may have been justified, but definitely not the timing of the payouts. The promised bonuses should have been deferred into the future and paid when and only if the company was fully restored to health. If a company offers very high-powered incentives, but with deferred payouts, it is effectively upping the stakes for its hired managers. The managers have big incentives to fix the problems, but they know the company can still fire them if they don’t turn things around quickly. “It’s not to say you should never fire them,” DeMarzo says. “But if you’re not going to fire the manager, you should go with high-powered long-term incentives.”

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Corporate protests such as picketers can hurt a company stock price. But what are the effects of shareholder activism on social issues? A new study shows that it too has consequences, even when it seems to do nothing in the short term.

In these kinds of protests, activists buy stock so they can participate in the corporate structure and push for resolutions — which often show up in other shareholders’ mailboxes in the form of thick white packets calling for votes. Although these resolutions often go nowhere, the protests themselves bring attention to the issue and show investors that corporations are dealing with potential issues, according to research by Sarah Soule, a professor of organizational behavior at Stanford GSB.

For the activists, she says, the corporate responses also mean they increasingly get a say in how a corporation handles such issues. In the long run, that means relationships between activists and corporate leaders sometimes move from combative to collaborative.

Cynics might suggest that this is a form of “greenwashing” by the corporations — that is, when corporations try to present an environmentally friendly image even when their actions don’t match up. But Soule, who has long studied the effects of protests on corporations, argues that it also signals to subsequent activists that there is some openness. And, she adds, “while there may not be the sort of direct effects you expect right away, there are incremental changes that can be quite profound.”

In two working papers, Soule and her co-researchers found that the more activists protested, the more corporations responded. And while activists couldn’t count on winning short-term battles, simply engaging with corporations created change. The companies respond in part to help move those issues onto a platform that they can control, such as their own social responsibility committee or publishing a report on a particular topic. At the same time, that means the corporations are now paying attention to concerns, Soule says.

The researchers also found that the more often activist groups submitted shareholder resolutions, the more often companies responded either neutrally or positively, either by negotiating with the shareholder to get the resolution withdrawn, or by doing nothing at all. The latter, the researchers say, suggests the company isn’t against having the issue placed in front of shareholders.

Additionally, when corporate activists targeted a company more often, they not only received more responses from corporations over time but they also received more favorable responses over time. “I think it’s easy for activists to get frustrated and feel that they are not having a discernible effect on the target, and this research shows they are having an impact,” says Mary-Hunter (Mae) McDonnell, one of the researchers.

As for corporations, they can look at it two ways, Soule says. “You might imagine companies saying, ‘Oh, wow, what have we done — we’ve now kind of opened ourselves up to more activism,’ ” she says. But they also open themselves up to more learning and more opportunities for collaboration with activists. “This can be powerful.”

Sarah Soule is the Morgenridge Professor of Organizational Behavior at Stanford GSB and the Hank McKinnell-Pfizer Inc. Faculty Fellow for 2014–15.
How a Bit of Play Just Might Lead to Better Work

The CEO of Badgeville says companies that “gamify” their workplaces could see more engagement and productivity.

BY SHANA LYNCH

Only about 32% of your workforce is fully engaged in their jobs, according to a 2014 Gallup survey. That means more than two-thirds are currently staring out the window, daydreaming about their weekend plans, or doodling during company meetings. But a Redwood City company called Badgeville believes it has a way to improve those numbers by helping make employees’ jobs more rewarding. Its method: “gamifying” the workplace.

Gamification entails anything from creating leaderboards to show best performers to handing out digital “badges” when workers complete a complex task. Successful programs trigger employee motivations, from a desire for success or status to building social connections or winning competitions. Rewards can also be tangible (think a gift card) or intangible (think recognition among your peers).

Badgeville, founded in 2010, focused early on helping companies engage their consumers, through rewards or brand loyalty programs, among others. But a few years ago, the company realized the enterprise side of its business was quickly growing and brought on Jon Shalowitz, a CEO with experience in enterprise software, to help. “Enterprises that want to be successful can’t ignore the challenges of engaging their employees,” says Shalowitz, who has most recently served as CEO and cofounder of CloudUP Networks, a software-as-a-service applications security startup bought by CipherCloud in 2014. “It’s not a given anymore that people come to the office, you give them a computer, and they do their work.”

Badgeville, which is backed by $40 million in venture funding, operates as software-as-a-service and can be built into platforms like Salesforce and Yammer. Booming markets include the manufacturing sector, insurance, technology firms, and companies onboarding large numbers of people, Shalowitz says. Most clients ask for help building external and internal communities, training new employees, or boosting their sales teams’ productivity.

Not every program is a winner. Programs that aren’t managed regularly or are poorly designed to begin with tend to sink fast. Gamification also fails when employers incorrectly identify motivations. “If you have a touchy-feely group and put in a highly competitive game, everybody will love it for a second and then it will die quickly,” says Steve Sims, Badgeville’s chief design officer.

Successful programs can make a bottom-line impact. Another Gallup poll found that companies with engaged workers see higher profitability and customer ratings, less turnover, and lower safety incidents. “What works is listening to your employees,” Sims says. “Try to understand their needs and motivations. Be transparent. What do the employees need to do and what do they get for doing it? Employees also need to see feedback on how they are doing at all points in the experience.” Here are ways Shalowitz says you can incentivize your teams, based on his experience with Badgeville:

CALL CENTER WORKER

Challenge: Monotonous days; workers often feel overwhelmed.

Solution: Show them they aren’t on a hamster wheel. Use mechanics that appeal to their sense of progress and achievement. Examples include progress bars and streaks, as well as symbols that represent both their short- and long-term career goals.
**SALES TEAM**

**Challenge:** Getting clean, error-free data and forecasting accurately.

**Solution:** Appeal to a salesperson’s desire for success and social status by making clean data and forecast accuracy part of the win. For example, show that they could reach the President’s Club more easily by doing these activities (and position these goals as low-hanging fruit). Individual and team competitions work well with this ambitious group.

**EMLOYEE TRAINING**

**Challenge:** Keeping employees up-to-date and educated on the latest aspects of their product and the industry.

**Solution:** Gamified educational programs that feed an employee’s need for achievement and progress. Try a tracked educational approach with discrete milestones or recognition of competency. This kind of program can help employees both acquire new skills and stay current with subjects that need to be maintained and/or refreshed at given time intervals.

**NEW HIRES**

**Challenge:** Getting employees up and running as fast as possible. Getting them acclimated to the culture, people, process, and tools.

**Solution:** Clear, bite-size instructions on what they should do and why, onboarding tasks and/or missions with feedback (on how they are doing, where they are in the process, and what to do next), and exposure to the people, tools, and training they need to be effective quickly. Consider incorporating task lists and progress boards to show them where they are in the process.

Jon Shalowitz received his MBA from Stanford in 1996.
Narcissists Make More Than You Do

Research explores why some CEOs get paid so handsomely.

BY ADRIENNE SANDERS

Larry Ellison towered again among the top ranks of the highest-paid CEOs in 2013 with total compensation of $78 million. He is in plentiful company. In 2013, 65 chief executives took home annual pay of more than $20 million. What prompts boards of directors to grant such astounding sums? And why would individuals, who by any objective measure have all their needs satisfied, seek such exaggerated amounts?

Research by Stanford GSB’s Charles A. O’Reilly shows that it is the persuasive personality and aggressive “me first” attitude embodied by narcissistic CEOs that helps them land bloated pay packages. Specifically, narcissistic CEOs are paid more than their non-narcissistic (and merely self-confident) peers. There is also a larger gap between narcissists’ compensation and that of their top management teams than is found with CEOs who do not display the trait. The longer the narcissists have held the top post, the bigger the differential, according to the study published in *The Leadership Quarterly* last year.

Narcissism is a personality type characterized by dominance, self-confidence, a sense of entitlement, grandiosity, and low empathy. Narcissists naturally emerge as leaders because they embody prototypical leadership qualities such as energy, self-assuredness, and charisma.

“They don’t really care what other people think and, depending on the nature of the narcissist, they are impulsive and manipulative,” says O’Reilly, whose research examines grandiose narcissism, a form associated with high extraversion and low agreeableness.

The study that O’Reilly coauthored with UC Berkeley doctoral student Bernadette Doerr, Santa Clara University Professor David F. Caldwell, and UC Berkeley Professor Jennifer A. Chatman surveyed employees in 32 large publicly traded technology companies to identify the narcissistic CEOs among them. Employees filled out personality assessments about their CEOs, which included rating the chiefs’ degree of narcissistic qualities such as “self-centered,” “arrogant,” and “conceited.”

They also completed a Ten Item Personality Inventory (TIP1) about their CEOs. In addition, researchers scanned CEOs’ shareholder letters and earnings call transcripts for an abundance of self-referential pronouns such as “I.” Narcissists use first-person pronouns and personal pronouns more often than their non-narcissistic peers, prior research shows.

The scholars chose to focus on the quickly changing, high-stakes technology industry, in part because it prizes individuals who are convinced of their own vision and who are willing to take risks. They figured correctly that it would bolster narcissists with large pay contracts. “In places like Silicon Valley, where grandiosity is rewarded, we almost select for these people,” says O’Reilly. “We want people who want to remake the world in their images.”

Narcissistic CEOs secure these pay contracts, at least in part, by winning over board members. The study found that companies with highly narcissistic top bosses do not necessarily perform better than those led by less narcissistic chiefs.

Narcissistic CEO/founders obtained even larger compensation than their narcissistic peers who didn’t found their companies. O’Reilly says this is logical given the extreme self-confidence and persistence of founders, who have to raise capital and overcome obstacles in order to survive.

“From the board member’s perspective, you’ve got this person who is quite charming, charismatic, self-confident, visionary, action-oriented, able to make hard decisions (which means the person doesn’t have a lot of empathy) and the board says, ‘This is a great leader,’” O’Reilly says, adding that board members might not necessarily see their self-serving, superficial qualities.

The paper notes that the CEO is often involved in hiring a compensation consultant who sets the CEO’s pay. Thus, it is in the consultant’s interest to make sure the chief is well paid. Unencumbered by a sense of fairness toward others, narcissists believe they are special and will often manipulate others in order to get large pay contracts they believe are their due.

The study also found that the longer the narcissistic chief executive was in charge, the farther ahead of his team his pay progressed, because he had recurring exchanges with the board, seeking more money for himself and less for his team.

A large pay divide between the CEO and other top executives can chip away at company morale, leading to higher employee turnover and lower satisfaction, according to O’Reilly’s research. Given the dissatisfaction and protests this pay gap can breed among employees, the researchers questioned how narcissistic CEOs could occupy the big office for so long. While some employees leave on their own accord, the paper supposes that CEOs may “eliminate those who might challenge them or fail to acknowledge their brilliance.” The same lack of empathy that makes narcissists less likable to underlings also helps these CEOs fire them with little guilt.

To avoid getting the heave-ho, people who work for narcissists must “constantly flatter them. You can’t challenge them. Be prepared for them to take credit for your ideas. That’s the name of the game,” says O’Reilly, referring to advice in Michael Maccoby’s book *The Productive Narcissist: The Promise and Peril of Visionary Leadership.*

O’Reilly’s team posited that because pay packages for senior executives are shaped by peer-firm comparison data, narcissistic CEOs’ ever-increasing pay demands contribute to the destructive upward spiral of broader CEO compensation.

Illustration by Nishant Choksi

Charles O’Reilly is the Frank E. Buck Professor of Management at Stanford GSB and the director of the Leading Change and Organizational Renewal Executive Program.
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“In a recent paper we focus not on reward, but on its darker sibling — punishment.”
—Kristin Laurin
Some managers prefer reward systems based on results, while others look at effort.
Rewards are tricky things to manage. Everyone agrees that people should get the reward they deserve. And everyone — for the most part, anyway — agrees that the reward each “deserves” is proportional to what she contributed. So if you and I write a book together, and you do twice as much work as I do for it, then you would deserve twice as big a share of the profits.

But the abstractness of this principle, which psychologists call equity, is both what makes everyone agree on it and what makes it useless from a practical standpoint. If we try to apply it in any kind of a concrete way, the apparent consensus dissolves. Questions arise: How do we determine how my contribution measures up to yours? Do we use the number of words written as the metric? What if it took me twice as long to write half as many words as you? What if my words are, not to put too fine a point on it, twice as good? What if I have achieved greater fame and glory than you, and the only reason our book is selling so well is that it has my name on it?

Different people calculate equity in vastly different ways. In my research, I’ve tried to figure out what factors determine how people calculate equity. One factor I’ve homed in on is religion.

Religions differ in all kinds of ways, but one of these ways relates to what religious scholars have perhaps foolishly termed orthodoxy and orthopraxy. These words come to us from ancient Greek, via medieval Latin: ortho, meaning “right” or “correct”; doxy, meaning “opinion”; and praxis, meaning “deed” or “action.” An orthodox religion, then, is one that focuses on the correctness of beliefs, whereas an orthopraxic religion is one that focuses on the correctness of behavior. Protestantism is a prototypical example of an orthodox religion: Protestant faiths have relatively few prescribed behaviors or rituals, and instead emphasize each individual’s personal relationship with God. By contrast, Judaism and Hinduism are two prototypically orthopraxic religions: In both these faiths, the dietary rules are far stricter than the rules about or rituals, and instead emphasize each individual’s personal relationship with God. By contrast, Judaism and Hinduism are two prototypically orthopraxic religions: In both these faiths, the dietary rules are far stricter than the rules about

To understand how this relates to equity calculations, consider how each of these versions of religion teaches people to make basic judgments. Under religious orthodoxy, the most worthy people have true faith and a healthy relationship with God. If you want to know how good a person is, you need to know what he does. In other words, questions of moral right and wrong depend on tangible, observable actions.

All of this means that equity calculations will look quite different depending on whether the calculator sees the world through a lens of orthodoxy or a lens of orthopraxy. Orthopraxy dictates that judgments should be informed by tangible, observable products: What did you physically do, and what was the observable outcome of your action? Orthodoxy leaves more room for the intangibles: What was your intention? How hard did you try? How do you feel about the outcome?

Along with Jason Plaks, an associate professor at the University of Toronto, I recently published a paper addressing this issue. In it, we focus not on reward, but on its darker sibling — punishment. All of the logic I just outlined about how people decide what is right and how to reward good people applies equally well to how people decide what is wrong and how to punish bad people. Together, we wondered how members of different religious traditions would choose to punish people who engaged in terrible behaviors, either by accident or on purpose. We reasoned that whether you do something on purpose or by accident is an intangible, and that therefore individuals from a more orthodox religious background would pay more attention to this mitigating factor.

Sure enough, across three studies, this is what we found. In one study, we recruited Protestants from the United States and Hindus from India. We told all participants a rather shocking story about a young man, J.G., who killed his uncle. We went on to tell some participants that J.G. acted fully intentionally: He wanted his uncle dead so that he could receive an inheritance, and he ran his uncle down with his car. To other participants, we gave a different version of the story, in which J.G. also wanted his uncle dead and also hit and killed him with his car, but he did so unintentionally: He meant to hit the brakes, but in his panic he stepped on the gas. Then we asked participants how much they thought J.G. deserved a severe punishment. When it came to the less intentional J.G., though, Protestants were far more lenient than Hindus. Both groups of participants were still somewhat harsh — after all, even the less intentional J.G. wanted his uncle dead — but Protestants gave him a considerable break for having acted unintentionally. Hindus gave him a tiny break for having acted unintentionally, but appeared to feel that the more important factor was the tangible outcome of his behavior. Moreover, we found that the difference between the two religious groups was fully explained by their difference in orthopraxy.

We replicated these effects across two other studies. In ongoing research, I’ve enlisted the help of Arthur Jago, a graduate student here at Stanford, to try to extend these findings to the domain of workplace rewards. So far we have limited our efforts to American participants, but our initial results are promising. We are finding that orthopraxic managers tend to prefer reward systems based on cold, hard results: how much sales revenue an employee has generated, or how many reports she has filed. By contrast, orthodox managers tend to be more interested in reward systems based on less tangible features, like how hard an employee works or how much she cares.

Religious variety has its benefits, to be sure, but our research hints that it can also generate misunderstandings that lead to conflict. That being said, in some of our studies, rather than compare members of different religions, we compared members of the same religion who simply differed on how much emphasis they placed on their religion’s orthopraxic versus orthodox elements. In other words, religious variety — and any ensuing conflict — can exist even within a group of people who, on the surface, share the same faith.
Bill Gates probably didn’t know it, but he was auditioning for the role of boss when he sat down with then UCSF Chancellor Sue Desmond-Hellmann last year. She was meeting with the tech tycoon turned philanthropist to discuss a job leading the Bill & Melinda Gates Foundation, which Gates founded with his wife.

Desmond-Hellmann knew that Gates had a reputation for being demanding, even harsh. Bringing up criticism of his organization might give her insight into how the Microsoft co-founder behaves when he is angry.

“So what do you think about all the criticism of the polio effort?” Desmond-Hellmann asked Gates. “I wanted to test what it would be like if he was fired up,” she told a gathering of Stanford GSB students.

The head of the Gates Foundation shares what she’s learned as the leader of the world’s largest charitable organization.

BY BILL SNYDER
Gates passed the test, and so did Desmond-Hellmann, who is now CEO of the world’s largest charitable foundation, with an endowment of $43 billion. As a leader in academia and a former executive in the pharmaceutical industry, the physician and research scientist (she specialized in the treatment of cancer) managed across a variety of organizations and navigated the tricky dance between a for-profit corporation and a philanthropic group that is seeking its aid.

Desmond-Hellmann brought her lessons in leadership to students at a View From the Top talk in January. Here are excerpts:

**BE YOURSELF.**

Do not adjust your personality when you become a CEO. “Great leaders show up as themselves every day,” she says.

**METRICS ARE KEY.**

There’s a set of expectations that comes regularly when you’re running a publicly traded company, says Desmond-Hellmann. Every quarter, you have to tell the entire world how the company is performing, using metrics that are widely understood. But when you’re working at a foundation or doing research, she says, “It can be easy to continue to push the finish line forward and to put off accountability.”

She says it’s crucial to seek out metrics because they make an organization accountable. “If you’re in a not-for-profit world, you have to do better than good intentions, because good intentions don’t change the world by themselves.”

**FAILURE IS PART OF BEING AN INNOVATOR.**

“It’s a key part of leadership to have an environment that accepts failure and welcomes failure and encourages people to take risk,” she says. “And so the most important part of leading an innovative environment for me is enabling people to seek the truth and tell you the truth.”

**BE CLEAR ABOUT YOUR OBJECTIVES.**

“I think one of the most efficient ways for people to lead is to be really clear about what you’re asking of people and what the outcomes are,” says Desmond-Hellmann. When building a public-private partnership, for example, educators need to understand whether they are seeking charity or asking to be part of a business plan. “The consequences of misunderstanding the difference between a deal and charity are high,” she says.

**MANAGE YOURSELF.**

“Nobody is going to understand as well as you do how much sleep you need, how much fun you need, how much exercise you need, what you should eat, whom you should surround yourself with. So, manage yourself so that you can be happy,” says Desmond-Hellmann.

**REFRAME YOUR VIEW OF BEING NICE.**

Desmond-Hellmann says she has learned not to be embarrassed about being demanding in pursuit of the organization’s goals, or worrying that people might think she isn’t nice. Underestimating people is not nice: A leader should be confident enough to say to an employee, “I’ll bet you’re capable of more. And, yeah, I’m going to ask you hard things. But you’re up to it,” she says.

**BE FIERCE.**

“Many overachievers feel like, ‘Oh my God, I need more work-life balance,’ or ‘I need to be easier on myself,’ or ‘I need to get more sleep.’ I honestly think you don’t get great things without trying hard. There’s something really special about being fierce when you’re doing something important or you want to create something special,” says Desmond-Hellmann.

**EMBRACE DIVERSITY.**

Bill & Melinda Gates have different views from each other and different personalities — their disagreements and differences strengthen the foundation’s leadership. “Melinda’s sense of social justice, her incredible caring for women and girls — she’s like the world’s best, most enthusiastic mom and brings all that to the job.”

Bill brings his “impatience, doggedness, brilliance, and everything that Bill is, and everything he’s brought to the world he’s bringing to the work at the foundation.”

“There’s something really special about being fierce when you’re doing something important.”
Financial derivatives have been in the doghouse of public opinion ever since the financial meltdown of 2008, when Warren Buffett famously described them as “financial weapons of mass destruction.”

But for companies or even countries looking to protect themselves against risk, there can be an upside. Look at Mexico, an oil producer that needn’t worry about this year’s massive drop in oil prices. That’s because last year it bought put options as part of a hedging program that locked in 2015 barrel prices at $76.50, a move that looked particularly sagacious as prices fell to less than $50.

But for corporations, the question is can hedging increase their market value. According to research coauthored by Francisco Pérez-González, an assistant professor of finance at Stanford GSB, hedging itself can be a wash (Mexico, after all, lost money on its program in 2014). But the indirect benefits of hedging can improve a company’s value.

Francisco Pérez-González is an assistant professor of finance at Stanford GSB and a faculty research fellow of the National Bureau of Economic Research (NBER).

**HEDGES**

**In Defense of “Financial Weapons of Mass Destruction”**

Research on derivatives concludes they can have benefits for investors.

**BY EDMUND L. ANDREWS**
THE TRADITIONAL APPROACH
Every business exposes itself to a long list of risks. Abrupt changes in consumer demand for smartphones, for example, drastically reduced the outlook for once-dominant firms such as Nokia and Research in Motion. A sudden drop in the value of the dollar can sharply improve prospects of U.S. exporters at the expense of foreign rivals. And those oil price fluctuations have a big impact on the airline and trucking industries.

Yet hedging by itself isn’t inherently profitable: Some firms reap gains, while others pay for insurance they don’t use. The effect over time is likely to be negligible.

As a result, the traditional view in corporate finance is that hedging adds nothing to shareholder value, especially at publicly traded firms. These firms tend to be owned by diversified investors, and investors can hedge for themselves by holding a diverse portfolio of stocks.

A ‘NATURAL EXPERIMENT’
It has always been difficult to estimate the effects of hedging on firm value. Companies that decide to hedge are often different from companies that don’t hedge, making it difficult to interpret the effect of derivatives from differences in company valuations. Financial economists don’t have the luxury of setting up random experiments between comparable companies that do and don’t hedge. “We cannot randomly and unexpectedly induce large publicly traded firms to hedge, or to drop an existing risk-management program, just to observe the consequences,” says Pérez-González.

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To get around that problem, he and Hayong Yun at the University of Notre Dame took a novel approach. They created a “natural experiment” by examining what had happened to weather-sensitive firms — mainly natural gas and electricity providers — after the introduction of weather derivatives for hedging against unusual swings in temperature.

Weather derivatives first surfaced in 1997, and the Chicago Mercantile Exchange began trading options tied to unusual hot and cold spells in 1999. The contracts work like any other type of insurance: You pay for it in good times, and it only pays off if the unwanted problem arrives. For utilities, especially in some areas of the country, exceptionally hot or cold weather can dramatically affect their business costs and revenue.

Pérez-González and Yun call their study a “natural experiment” because the sudden availability of new weather derivatives created a natural control group within a given industry. That made it possible to isolate the impact of derivatives by comparing companies with large weather risk before and after the new hedging tools became available.

Not surprisingly, the researchers found that weather-sensitive utilities embraced the new derivatives more frequently than those that faced less risk. More surprisingly, the researchers found that weather-sensitive firms increased their value — as measured in ratio of market value to book value — by at least 6%.

**TAKING THE RIGHT RISK**

But why? If hedging is ultimately a wash, sometimes paying off and sometimes not, how did the firms as a group end up ahead?

Pérez-González and Yun think they have the answer: The companies that reduced their exposure to weather risk were able to make more productive use of their capital and reap higher rewards for investors.

The researchers found that companies became more financially aggressive after using the derivatives, apparently because they didn’t have to reserve as much money for unpredictable weather shocks. The companies increased their leverage and their capital expenditures as weather derivatives were introduced. That, in turn, led to higher market valuations.

“Allowing firms to focus on the risks they are in business to take, while hedging against risks that they are not in business to take, can add value,” says Pérez-González. “The goal of the hedging strategy should be to maximize the firms’ cash flows. Our evidence shows that firms increased their cash flows by using their balance sheets more aggressively and by investing more.”

The same lessons should apply to many other kinds of hedging, such as against swings in foreign exchange rates, oil prices, or interest rates. If the risk of such fluctuations limits management’s ability to concentrate on the main business, Pérez-González says, companies have a case for managing the risks.

**A FINE LINE BETWEEN HEDGING AND SPECULATION**

The study doesn’t settle all the questions about the impact of derivatives. Banks and Wall Street firms thought credit-default swaps could reduce, if not eliminate, their risk on subprime mortgages. But when the entire financial industry became overconfident, the total risk exposure became far higher than it would have been if no one had hedged in the first place.

“Derivatives can exacerbate both firm and systemic risk exposures,” Pérez-González and Yun acknowledged in their paper. “Not surprisingly, financial derivatives have played a central role in recent financial crises.”

Pérez-González cautions that there is a fine line between hedging and speculating. “Most nonfinancial corporations have no expertise in predicting the direction of foreign exchange rates or commodity prices, for example, but many risk managers attempt to take a view, and those bets frequently turn out to be costly. A hedge should seek to reduce risk exposure; it should not be a gamble on the direction of the market.”

The companies that reduced their exposure to weather risk were able to make more productive use of their capital and reap higher rewards for investors.
What Is the Relationship Between Chinese Politics and IPOs?

Research shows it’s more complex than mere crony capitalism.

BY EDMUND L. ANDREWS

Chinese companies have gone public in a big way. But evaluating Chinese public offerings takes more than scrutinizing the numbers. Because politicians and political connections have such a big impact on a company’s operations and prospects, both the decision to go public and the subsequent financial performance of new stocks are a function of political science.

Chinese political leaders and their families have become rich in recent years, often because they had special access to the shares in all manner of companies. But a study coauthored by Joseph Piotroski at Stanford GSB shows that the interplay between politics and public offerings is often much more complicated than old-fashioned crony capitalism.

Piotroski and Tianyu Zhang at Chinese University of Hong Kong studied the local political circumstances of more than 400 companies that went public from 1998 through 2008. They found that the number of IPOs jumped shortly before the promotion of provincial political leaders. Part of the increase was spurred by aspiring political leaders who wanted to embellish their economic credentials. In other cases, companies accelerated their IPO plans to shield themselves from expected disruptions in their established political relationships.

Joseph Piotroski is an associate professor of accounting at Stanford GSB, where he was the inaugural Center for Global Business and the Economy Research Fellow.
Faced with a disruption in their political ties, companies that aren’t state-owned may choose to go public as a form of insurance.

Unfortunately, “promotion-period” stock offerings frequently haven’t done well. Piotroski and Zhang found that, on average, promotion-period IPOs have underperformed the overall Chinese market by 18.2% in the year following their offering, and underperformed IPOs not tainted by promotion-period incentives by 14.9%. Moreover, these companies were more likely to use the proceeds in ways that weren’t described in their prospectuses, and the existing shareholders were likely to give public shareholders a smaller share of the company. The bottom line: The promotion-period IPOs are being driven more than usual by calculations of political opportunism rather than by business fundamentals.

The study’s bigger value may be in what it reveals about the nuances of Chinese capitalism. Recognizing that the day-to-day clout over business is at the local and provincial levels, the researchers focused on how companies reacted to the looming departure or elevation of top provincial officials such as governors and party secretaries. Such leaders have enormous sway over regulations, subsidies, and access to capital. It is difficult to even get approved for a public offering without support from provincial regulators.

Faced with a disruption in their political ties, companies that aren’t state-owned may choose to go public as a form of insurance. With more money in the corporate treasury, a company is likely to be less dependent on the caprices of a new political boss.

In general, the initial stock offerings from state-owned companies were of lower quality than those of privately owned companies. Descriptively, Piotroski and Zhang found that state-owned companies tended to be bigger but more highly leveraged, less profitable, and more labor intensive.

Part of the push for IPOs appears to come from the political leaders themselves. Previous researchers had found that politicians are often reluctant to privatize state-owned companies, especially at times of political change, because privatization reduces their political clout and the amount of state resources the local politician controls.

But in many parts of China, political incentives can accelerate the pace of listings. In provinces that reward leaders who show their skills in economic development, the departure of a top political leader has the potential to set off a tournament-like contest between aspiring leaders. In these cases, IPOs are often used as a means of “window-dressing” local performance, the researchers wrote. For politicians who get a piece of the offering, IPOs can also be personally lucrative.

Regardless of who is making the political calculation, the results aren’t particularly good. State-owned companies underperform the market, regardless of how they time their public offerings. At companies that are not state-owned, the researchers wrote, promotion-period public offerings are predictors of “reliably negative” performance after the stock has begun trading.
America’s big tech firms are admired for their ingenuity — their products have improved our lives in myriad ways. But critics say they’ve also used that ingenuity to devise elaborate corporate structures that shift earnings to offshore tax havens. Apple and Microsoft have been pilloried before the U.S. Senate; the British Parliament has gone after Amazon and Google.

To be fair, aggressive tax strategies are the norm among U.S. multinationals, in part because our corporate tax rate of 35% is the highest in the world. But tech giants like Apple seem to have carried it further than most, contributing less to public coffers than other comparably sized firms.

Lisa De Simone is an assistant professor of accounting at Stanford GSB and the John S. Osterweis Faculty Scholar for 2014–2015.
“The system creates certain incentives, and it’s hard to blame corporations for responding to those incentives.”

export profits, not products

To understand what’s meant by “income shifting,” consider a U.S. firm that exports a product to Mexico, earning a profit of $100. After tax, it keeps $65. Now suppose it sets up a subsidiary in Bermuda and books the sale there. The $100 is now foreign income, which the company can exclude on its U.S. tax return (at least until the money is repatriated, but in practice it rarely is).

The product can still go from the United States to Mexico, so there’s no extra shipping cost. And Bermuda has no corporate tax, so the firm keeps the full $100. No economic value has been added; there’s no business reason for the sale to come from Bermuda. The company has clearly shifted $100 of earnings offshore to avoid taxation — boosting its net income by 54% in the process.

Indeed, in another study last year, De Simone found that U.S. multinationals with mobile asset bases shifted a larger portion of their income offshore, achieving “high long-run levels of tax avoidance.” It’s not that tech firms are worse corporate citizens; they simply shift more income because they can. “The system creates certain incentives,” De Simone says, “and it’s hard to blame corporations for responding to those incentives.”

As assets on wheels

First, the corporation needs to make a case that the subsidiary owns the products it sells. To do that, it has to move a share of its income-generating assets to Bermuda. Here’s where tech firms have an edge: Their core assets are things like software, patents, copyrights, and designs — all considerably more portable than, say, metal-stamping presses or farmland. By shuffling intellectual property around, these companies can locate income practically anywhere in the world, at least for non-U.S. sales, to minimize their overall tax bill.

drive a soft bargain

Second, any transfer of assets to a subsidiary is supposed to be paid for as if parent company and subsidiary were independent parties — in other words, at full market value. And that payment back to the parent company is taxable U.S. income, partially offsetting the benefit of the arrangement.

Of course, the transaction is a bit of elaborate theater: The subsidiary often pays with cash it gets from the parent, in exchange for its own initially worthless stock certificates. It’s not uncommon for the same corporate lawyer to play both roles, transferring money from one pocket to the other.

But when international tax rates differ, the terms of these deals really matter. To shift as much income as possible into a lower-tax jurisdiction, a multinational will want to undervalue the transferred assets. “It’s all about to what extent the U.S. parent can undervalue the payments it should receive from the foreign subsidiary,” De Simone says.
Data from an earlier study show that cost-sharing arrangements have become more common over time, which raises the question why. By modeling cash flows under alternative structures, De Simone and Sansing find that the choice turns, surprisingly, on name recognition. The reason is that under U.S. cost-sharing rules, companies can ignore marketing intangibles like trademarks and trade names in calculating the buy-in payment. “The implicit assumption is that marketing assets have no value overseas,” De Simone says. But that’s often untrue in today’s global economy — think of the margins that Apple products command worldwide. “You’d expect the sub to pay for that,” she says. By leaving name recognition out, CSAs lower transfer prices and leave more income offshore. The bigger the brand, the larger the tax benefit.

According to Senate testimony in 2012, an analysis of cost-sharing arrangements by 15 major multinationals found that the foreign subsidiaries had an average return on assets of 268%, compared with 40% for their U.S. parents. Clearly those subsidiaries were not paying the market value of what they were getting.

**AN EXERCISE IN MODESTY**

Chances are that’s not just because of the loophole on marketing intangibles. Under any of these methods, the IRS is at a big disadvantage in trying to judge whether transfer prices meet the arm’s-length standard. The company always has better information. It can assert, for instance, that the prospects for a new technology or product are more uncertain than it believes them to be.

The model shows that “if they can exploit that information asymmetry, it tends to favor a sale of assets over a cost-sharing arrangement,” De Simone says. Other studies have looked at the use of price manipulation to shift income. But they miss an important element, she says: The IRS can also come back later and change the terms if it finds they aren’t “commensurate with income.”

Incorporating that element of risk changes the calculation. “Maybe the taxpayer can get away with understating the value, but the punishment could be so severe if they get caught that it’s not worth it,” De Simone says. In such a case, it would have been better for the parent company to retain ownership, do all the R&D domestically, and license the IP to its subsidiaries.

“The company can do a sensitivity analysis on possible outcomes. In my experience doing some of this for multinationals, it’s something they look at. They try to take into account: How could this go wrong? What are the chances? What’s the rosier picture? What’s the least rosy picture?”

**INSIGHTS FOR POLICY**

Ultimately, the cause of all this artifice and scheming is the disparity in tax rates and rules from country to country, and particularly between the United States and the rest of the world. It creates an environment in which smart companies — just doing what they’re supposed to do, maximizing shareholder value — are able to game the system. In the process, it distorts business decisions and benefits some taxpayers at the expense of others, who have to make up the shortfall.

“That’s how we do things in the U.S.,” De Simone laughs. “We have our own set of rules for everything, not just taxes.” Perhaps the recent public debates will provide some impetus to finally move ahead on corporate tax reform and harmonization. “We’re starting to see multistate action in the European Union and the Organization for Economic Cooperation and Development to curb some of this behavior by multinationals,” she says. “It’ll be interesting to see whether it spurs some changes here too.”

If so, the insights provided by work like this, which gets beyond political grandstanding and moral exhortation, analyze companies as rational economic decision makers, will be an essential guide.
“We Will Keep Going Until We Have an Impact.”

Hiroshima Governor Hidehiko Yuzaki’s goal is clear: End the nuclear threat.

BY LOREN MOONEY

Not since the Cold War has there been a tougher time to advocate for global nuclear disarmament: Russia has been reinvesting in its nuclear arsenal amid aggression in eastern Ukraine, North Korea continues its program development despite United Nations resolutions, and negotiations between Iran, European nations, and the United States over Iran’s nuclear program remain highly contentious.

But Hidehiko Yuzaki, governor of the Japanese state of Hiroshima, believes that you can’t wait to solve all the diplomatic problems in the world before going down the road of nuclear disarmament. And, if anything, it’s even more important to keep the issue alive in trying times.
“Right now, there are many nuclear weapons,” he says. “But we need to be forward looking and construct our activities now to increase our influence ... to abolish nuclear weapons in the future.”

To that end, in 2011 Governor Yuzaki formed the Hiroshima for Global Peace Plan, a project advocating for global peace building and the abolition of nuclear weapons. Since its inception, the program has raised the profile of the humanitarian issues around nuclear weapons and issued expert evaluations of key nations’ performance in meeting their obligations under the international Nuclear Non-Proliferation Treaty (which came into force in 1970 and today has 190 member states).

This year promises to be a significant one for the project: In April, it will present its latest recommendations to the U.N. NPT Review Conference, held every five years. And August 6 marks the 70th anniversary of the Hiroshima bombing.

It may seem unlikely for a local governor to take an active leadership role in a long-term mission advocating for international peace and nuclear disarmament, rather than focusing exclusively on urgent regional issues. But for Yuzaki it is an identity-based mission, partly influenced by his father, a scholar who studied the experience of the hibakusha, as survivors of the atomic bombings of Hiroshima and Nagasaki are called. “Today their average age is about 80, and soon there will be no survivors,” Yuzaki says. “If this turns into the loss of memory, then Hiroshima will lose influence. And it is the responsibility of government of the prefecture, which includes this devastated area, to fulfill the wish of nuclear abolition on behalf of those who suffered from the bombing. We need to do that, and we will keep going until we have impact.”

The wish of nuclear abolition is a reasonable and rational one, but the path to achieving it is obviously long and complicated.

“The governor is too much of a realist to think that Hiroshima can change global politics overnight, that pointing out the horrors of nuclear war are going to cause the leaders of North Korea, Russia, and the United States to abandon their weapons,” says Stanford political science professor Scott Sagan, a senior fellow at Stanford’s Center for International Security and Cooperation. “But he’s also enough of a realist to recognize that when people come to Hiroshima, it influences them — suddenly nuclear weapons are not an abstract phenomenon, but a reality that can, today, kill many millions of people. Seeing that reality can change people’s views.”

So far, Hiroshima for Global Peace has focused on track-two diplomacy, gathering former foreign ministers, specialists, and academics (including Sagan) who aren’t beholden to political agendas to build consensus on reasonable measures that, even during politically tense times, can contribute to eventual mutual disarmament, such as stockpile stewardship to prevent accidents or funding for improved methods of verifying compliance with the NPT. “We have a candid discussion, and from there would like to push our arguments toward first track, and get it on the governments’ table,” says Yuzaki. “One power we have is our name, Hiroshima. People do not hesitate to meet with us.”

While the global political influence will come slowly, the program — which consists of more than a dozen experts from Japan, the United States, Australia, China, and South Korea who volunteer their time — serves a constant reminder for nations to keep disarmament at the forefront of policymaking, that progress can be made even when tensions are high.

The Hiroshima for Global Peace Plan has had an impact on Hiroshima itself, helping to shift the global view of the region from a place of tragedy and memory of the atomic bombing to a future-oriented place of hope and action toward disarmament.

Hidehiko Yuzaki is serving his second term as governor of Hiroshima Prefecture, Japan. He earned his MBA from Stanford GSB in 1995, then founded ACCA Networks, a broadband telecom carrier in Japan.
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“If you only allocate resources to those who are winning today, there will be no tomorrow.”
— Professor Robert Burgelman in the class Strategic Management of Technology and Innovation, which he teaches with Robert E. Siegel

“To build a learning organization, reward attempts at discovery regardless of outcome.”
— Tweeted by Professor Bill Barnett @BarnettTalks, linking to a blog at www.BarnettTalks.com

“What you should reward is results, not efforts.”
— Carlos Brito in his 2013 View From the Top talk

“My definition of luck is preparation meeting the moment of opportunity.”
— Oprah Winfrey during her 2014 View From the Top talk

“As a leader you need to create a culture that rewards and promotes honesty, even if you disagree with something.”
— Steve Poizner in an interview with Stanford Business

“I think people can benefit tremendously from really asking why they’re doing certain things.”
— Elizabeth Holmes during her 2015 View From the Top talk

“The ambitious goal [of design thinking] is to produce a solution that captures the hearts and minds of everyone on the team and the users of the solution.”
— Professor Sarah Soule, writing for Stanford Business

“I try to set an environment where I reward clear, efficient answers.”
— Sue Desmond-Hellmann during her 2015 View From the Top talk

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The Takeaway

THE ESSENTIALS
FIVE LESSONS FROM OUR STORIES ON REWARD
EDITED BY DEBORAH PETERSEN

In Defense of Hedging
Hedging has indirect benefits that can increase a firm’s overall value. A company that hedges against bad weather, for example, becomes more financially aggressive, apparently because it doesn’t have to reserve as much money for unpredictable weather events.
— Francisco Pérez-González

Being Authentic Pays
Consumers value more highly those products they perceive as being genuine as opposed to mass-produced. Such perceived authenticity can also “buffer businesses against negatives” such as questionable cleanliness.
— Glenn Carroll

Which Matters Most: Intentions or Behavior?
How we decide to reward and punish people is often rooted in our religious beliefs, and whether our faith teaches us to focus on a person’s intentions or behaviors.
— Kristin Laurin

Shareholder Activism Works
Picketers can hurt a company’s stock price. But less public yet persistent shareholder activism influences companies on social issues, as well.
— Sarah Soule

It’s Not What You Did But What You Will Do
Framing your support for a person, a restaurant, or a cause in terms of potential as opposed to achievement could make your case more persuasive.
— Zakary Tormala

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**William Barnett**
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**Glenn Carroll**

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**Kristin Laurin**


**Harikesh Nair**


**Jeffrey Pfeffer**


**Charles O’Reilly**


**Sarah Soule**
*Contention and Corporate Social Responsibility*, by Sarah Soule, 2009


**Zakary Tormala**

“Influence: Science and Practice*, by Robert Cialdini, 2009


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One year can change everything. It did for Mike Cagney, MSx Class of 2011, and now cofounder and CEO of SoFi. The idea for disrupting the student loan market hit him during finance class. He worked with classmates in entrepreneurship to revise and refine the business. He raised seed capital from alumni in Silicon Valley. Today, SoFi is the largest provider of student loan refinancing with a revolutionary approach to underwriting and a unique investment model that creates a positive social impact.

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