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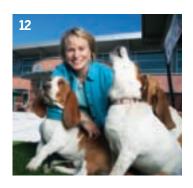
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# Social Networks of Now and Yore



OUR STORIES IN THIS ISSUE on social networks got me thinking about my past. Are connections via the internet different, I wondered, from those old clubs and gossip sheets that reported embarrassing social doings like our fumbles in the fourth quarter? I went to the attic for clippings from my hometown newspaper.

Several stories reported on the Lakeview Farmers Club, a network established in 1915 by my grandparents and their neighbors to save them from too many evenings of talking to cows. The club is where I learned to recite poetry in front of an audience. (In those days, humans were more

polite than cows.) That's also where I fell victim to providers of protection in Red Rover. By age 5, I was careless about due diligence. Professor **Roderick Kramer** reminds us on page 26 that it isn't just Bernie Madoff's friends who sometimes trust members of their networks too much. It's a good thing Lakeview was not about making money, as these yellowed clippings assert:

"The Lakeview Farmers Club is entirely social. Its members will have nothing to do with politics and almost never speak of farming. Making money or setting membership quotas isn't its purpose. Once, years ago, the club made 40 cents on a dog show. As the price of rabbits went up, the men organized hunts and the treasury bulged. In 1930 before electricity came, two mechanically minded members rigged a movie projector, and the club enjoyed sound moving pictures."

Money may not have been the glue, but technology was a draw.

OK, so the world of social networking hasn't changed much, I thought, but I decided to verify with a visit to my hometown newspaper as it exists on the web.

I googled its name and found five blogging categories. Before I could click on one, I noticed a blinking headline: "Live Traffic Feed." Under it in smaller type next to a U.S. flag were these words: "Stanford, California, United States, arrived 10 seconds ago."

What! I am being tracked not by the CIA or the IRS but by my hometown paper's blog. This is worse than the old days when it reported my visit to the household of a boy I didn't like.

But Stanford isn't my name and it doesn't tell if I'm looking at classified ads for bulls or church news, so I calm down and decide to follow the bread crumbs to the "Stanford Blogosphere."

First stop: ShinBaLa Cafe in Cupertino. I can't tell you much because the rest of the page is in Chinese. Besides myself, there is only one U.S. flag.

I check "about us" and learn I'm in a "geoblogosphere" that has algorithms for local "relevance" and "popularity." I switch my view and find the most popular local page is for "Security Labs SLD244 Multiplexed DVR with Motion Detection." This is Sept. 11, so perhaps security is on people's minds. The page is being visited from "Gainesville, Ga.; Grand Prairie, Texas; Istanbul, Turkey; Tampere, Western Finland; Oslo, Norway; Toyonaka, Osaka; Bogotá, Colombia; and Salamanca, Guanajuato." This is a network I haven't tapped yet, and it would be fun to get to know the eyeballs behind the addresses if I were wealthy, but I am not, so I need to finish this column.

Has anything significant changed in social networking? Perhaps for some of you who are independently wealthy, but if you are as time-pressed as I am, you might prefer to check out the class notes section of this magazine where, I guarantee, you will know somebody and probably, thanks to the due diligence or whimsy of your class secretary, learn something of interest. But if he or she recommends a bank in Switzerland or the Cayman Islands, I suggest you first read what Professor Kramer has to say about due diligence.

EDITOR

Kattlen O Tosle

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## CAT and Turtle

MY FIRST PRIORITY AS DEAN is to consolidate the gains that Bob Joss made in his decade leading the GSB. We'll continue to refine the new curriculum. We must not only continue to build the new campus but ensure that it is a dynamic space when we move in next academic year. And we'll continue to forge new collaborations with the other schools at Stanford. We must do all of this while continuing to look for new opportunities to develop principled critical analytic thinkers who can change the world.

One of the personal challenges I face is figuring out which of the many activities I have enjoyed so much in my previous role to hold on to. One that I concluded I simply could not give up this year was teaching the Critical Analytical Thinking (CAT) course. So this fall I am teaching two sections of 16 students with Lisa Schwallie, a director of the MBA Program, with whom I have twice before taught this class.

The first section shows up at my house on Thursday evening and settles into our living room. Those who come early grab the couches; the others get the folding chairs. Our black lab, Turtle (named by my eldest daughter, Amber, currently an MBA2 at the GSB), makes his rounds sniffing and wagging his tail. We spend 90 minutes on the topic of the day before we are joined for a casual dinner by the second section. After dinner it is the second group's turn.

The assignments deal with thorny issues on which the students must take a position. Lisa and I will have read and graded the three-page papers they turned in the night before. We thus have a very good sense of where the class has come out on a particular issue. In the first session the question is: "What should Google do in China?" If Google keeps its servers there, it is subject to state control over the content. If it pulls its servers out, it avoids that but the quality of the service is impaired. And, remember, Google's mantra is "Don't be evil." Lisa or I will say, "Alex, it is clear that you think Google should stay in China. Please briefly provide your argument." And then, "Jessica, you are on the other side of the issue. Explain what you think is wrong with Alex's argument and then present your own." At that point the rest of the group is eager to jump in and we facilitate a discussion of the key issues. The second

But the discussion of the specific topic is only our secondary objective. The main points are to get students to understand what makes for a strong, logical argument (within a complex, sometimes ambiguous situation); to articulate these arguments or ally and in writing; and to defend them logically. As part of the process the students also learn to analyze others' arguments and to see points in common and in difference with them. Several of the CAT topics challenge the students'

session asks the students to argue for their favored approach to regu-

lating the credit-rating agencies in light of the financial crisis.



### "I simply could not give up teaching the Critical Analytical Thinking course this fall."

notions of what principled leadership means. Real-life managerial decision-making requires choices among difficult alternatives.

As the quarter progresses I will have been able to tell how much my students benefit from this training in critical analytical thinking from the improvement in their papers and oral argumentation in class. But the even more rewarding affirmation comes when the students bring these skills to bear in other courses by presenting cogent strategies that are well argued or implementation plans that are rigorous and demonstrate principled critical analytical thinking.

My 32 CAT students are also my advisees. Lisa and I counsel them on class choices, and we are their first port of call for broader issues related to their GSB experience. They get to know me not only as a professor and dean but also as a person with outside interests and passions (and a very affectionate dog named Turtle). As a result many of my advisees stay in touch. Just tonight I received an email from one of my CAT students from the inaugural 2007 class telling me about the job he just landed. (Congrats, Faisal!) Any wonder I am teaching it again this year?



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# Spreadsheet

\* WHAT'S UP: NEWS ABOUT THE GSB AND ITS GRADUATES



# MBA Alumnus Oliver Williamson Named 2009 Nobel Laureate in Economics

"In my career one thing leads to another," said Nobel laureate Oliver Williamson, MBA '60. He was reflecting back a half-century on how he happened to pursue an academic career that would lead to his being picked by the Royal Swedish Academy of Sciences to share the 2009 Nobel Memorial Prize in Economic Sciences.

Now a professor emeritus of economics at the University of California's Haas School of Business, Williamson was a freshly married engineer when he arrived at the Stanford Business School in 1958 to pursue an advanced degree. "I took fall quarter economics with **Jim Howell** and found economics was quite fascinating stuff and that I could bring many of the tools I learned as an engineer to bear," he said.

Then came the other half of the one-two punch: a young professor named **Chuck Bonini**, with whom he shared an office. Bonini

"could see I had an applied interest even though I was in economics. He had come out of an interdisciplinary program at Carnegie Mellon and he thought I was well matched for it, and he plugged it several times. They were both enormously helpful in reshaping my career." At the time, he said, the Stanford MBA Program was strong but the School's PHD Program was being built.

At Carnegie Mellon, Williamson met up with **Jim March**, a young professor who would go on to build the organizational theory program into a powerhouse at the GSB. "Those were marvelous years," Williamson said of graduate school, where he applied what he had learned in both engineering and business school to economics research.

Williamson is perhaps best known for his 1975 book *Markets* and *Hierarchies* in which he developed a theory of transaction costs, initiated by Ronald Coase, Nobel winner Oliver Williamson, MBA '60, at an October 12 press conference at UC-Berkeley.

the 1991 Nobel laureate. Williamson explained why very large firms are sometimes more efficient than smaller firms contracting with each other through markets. His ideas on the efficient boundaries of a firm have been useful to managers in various industries for analyzing the costs and benefits of joint ventures, mergers, acquisitions, spinoffs, and outsourcing. The Nobel committee cited as an example a coal-burning electric plant near a coal mine. If there is only one coal mine in the region, integrating the two is economically sensible. If more mines are nearby, integrating with one mine could undermine the advantages of allowing coal companies to compete for the utility's business.

"Olly's work on transaction cost economics is taught in MBA courses on economics, strategy, organizations, marketing, and nonmarket strategy," said GSB Senior Associate Dean Glenn Carroll, PHD '82, who was a colleague of Williamson's at Haas before returning to Stanford. A half-dozen Stanford faculty in economics, organizational behavior, and political science presented papers at a 1995 conference honoring Williamson, and Carroll co-edited a 1998 book about their ideas called Firms, Markets and Hierarchies.

### Circuitous Route to CFO

When Oracle CFO **Jeff Epstein**, MBA '79, graduated from business school, he hadn't heard of the young company, only a mile from his first job, that would later become Oracle. His career path was circuitous, he told a Stanford Business School audience at the Arjay Miller Distinguished CFO Lecture in May, but it prepared

him for the role he has today.

Epstein's job at the Washington Post Company gave him his first significant brush with technology when the Federal Communications Commission was offering free cellular phone licenses. "I actually wrote the marketing plan for cellular telephones," he recalled, "at a time when there were zero cellular customers in the United States, trying to predict how many mobile phone customers there were going to be."

He moved to First Boston Corp. to handle media mergers and acquisitions, then to King World as CFO. "I didn't know what I was doing in my first year," he said, but the company was small and he was able to learn on the job. At CUC, a large direct-marketing company, he became general manager, thinking it might be useful experience if he ever became a CEO. Then he made an opportune jump in 1998 to DoubleClick, where he was CFO on the day of its initial public offering. After the internet bust. Epstein joined Dutch media conglomerate VNU to prove that he could be CFO of a large company.

Throughout his career, Epstein says he was always the one called in to fix problems, which meant he had to learn on his own.

All this has changed since he joined Oracle. "I'm essentially in a role now where my job is to hire great people, make sure their goals are aligned, motivate them, and check to make sure they're doing OK – but be a leader, as opposed to being an active personal contributor," he said.

And if he had joined Oracle back in 1979 and stayed? "I left about a billion dollars on the table," he said, only half joking.

For video of Jeff Epstein's Distinguished CFO Lecture, go to BizOnline.Stanford.edu PHOTO BY PAUL SAKUMA/ASSOCIATED PRESS

### He Tracks Swine Flu in Virtual World

Dr. Bruce Lee, MBA '98, this past summer was building a sort of "SimCity" aimed at guarding people against the H1N1 virus. Lee, an assistant professor of medicine at the University of Pittsburgh, joined forces with his colleagues on a National Institutes of Health project called the Models of Infectious Disease Agent Study, more commonly known as Midas. The scientists are creating a virtual model to predict how people might react to an outbreak of the virus and how government can respond. The researchers plug in real data about infections and deaths, but human behavior is harder to simulate.

One of the most difficult situations for health officials, Lee told Business Week, is to know when the need to close schools and businesses outweighs the significant economic burden that results. Since in the real world. some people locked out of classrooms or offices don't stay home but go to the movies or the mall. their bad behavior is built into the model. "Not even [virtual people] will all do what they're told," Lee said.

### **Quotable**



"We have the world's largest [vitamin supplement] market share, and literally nobody knows about us. What would happen if we actually started telling the story about this

-Candace Matthews, MBA '85, chief marketing officer of Amway, which sells Nutrilite vitamins and supplements; she led the company to a 15% gain in 2008, her first year on the job. Despite the economic slowdown, the company is on track for single-digit growth in 2009. Matthews was named "Corporate Executive of the Year" by Black Enterprise.

### **Littlefield Legacy:** Warfare Laboratory

Growing up, Jacques Littlefield, MBA '73, spent countless hours building plastic models of tanks. By the time he entered business school, he had built two remotecontrolled versions. One of them, a copy of a Russian T-34-85 that was made out of metal and wood. measured a few feet high, weighed about 100 pounds, and had a working flamethrower. Years later he bought the real thing - a 28-ton leftover from the Soviet Union emblazoned with the Russian battle cry "For Stalin!" on its turret.

Littlefield, who died in Janu-

ary 2009, eventually collected more than 200 military vehicles on his property in the hills above Stanford. The collection is a resource to scholars. "When you see these things and imagine 10,000 or 20,000 of them facing off against each other, you think: 'My God," said Jack Kollmann, a lecturer at the Stanford Center for Russian, East European, and Eurasian Studies. Mechanical engineering students also come to study the technological changes as do defense contractors and moviemakers.

In 1998, Littlefield founded the Military Vehicle Technology Foundation to maintain the collection. His longtime friend Bill

Boller, MBA '71, is president.

When Littlefield was laid to rest in the family burial plot, his coffin was brought on the back of an M551 Sheridan, a 15-ton Vietnam-era American tank with "Deathstalker" painted on its cannon.

### **Nurturing Self-Help Among Kenyan Farmers**

Maize is a staple food in Kenya, but farm families in the Kuria district are hard put to survive the months between harvests. Nuru International, a nonprofit cofounded by Jake Harriman, MBA '08, introduced the area's farmers to crop rotation and other modern methods in late 2008 and then offered them loans for fertilizer and high-yield seeds. The farmers could pay back the loans when their crops increased beyond what they needed to feed their families. Nuru ("light" in Swahili) is devoted to helping the poor not with handouts but by helping them help themselves.

The concept is deceptively simple and, as happens with many simple concepts, complications set in. The demand for maize soared globally. This looked good for future markets, but it caused the price of seed and fertilizer to skyrocket, Harriman, a Marine officer who served two tours in Iraq before coming to the Business School, put \$50,000 down on an order of seeds and fertilizer and went to the States to fundraise. He came back with another \$125,000. The day the supplies were to be delivered, the agency wouldn't release them - something about initial paperwork being on the wrong letterhead. After phone calls, faxes, and personal appeals, the seeds and fertilizer were delivered to the 450 assembled farmers who had been waiting for more than 6 hours.

"I was so proud of the way that the Kenyan staff went into action as everything was falling apart all around us," Harriman wrote in his blog. "I am becoming more and more confident that they will be able to completely take over and run this project very soon."

This past summer's maize Continued on page 10



### **B-Schoolers Bike the Bridge**

Erica Furfaro, Alexandar Karlan, and Stefan Jeschonnek were among the 100 first-year MBA students who biked across the Golden Gate Bridge in one of several mid-September social events planned so new students could get acquainted before the fall quarter started.

### **New Ventures**

### SunRun

SunRun, cofounded by **Lynn** Jurich and Edward Fenster, both MBA '07, leases solar panels to homeowners who find the upfront costs of solar prohibitive. SunRun pays for the panels and services them for 18 years. Homeowners pay SunRun for the installation of the panels and for the electricity generated by the panels but at a lower price than they would pay for energy from the grid. At the end of the contract, the homeowner can have the panels removed, buy them, or renew the contract.

### **Triumph Golf**

Former PGA golf pro and investment banker **Michael McTeigue**, MBA '85, joined three veterans of golf club management to found Triumph Golf, which helps private and public clubs deal with declining membership and other financial woes caused by the recession. McTeigue has 20 years' experience with new and emerging companies.

### The Auteurs

What's a film buff to do? Efe Cakarel, MBA '05, found himself in a coffee shop in Tokyo with a serious need to watch Wong Karwai's *In the Mood for Love* and was amazed he couldn't find it. So in 2007. Cakarel founded the video-on-demand site TheAuteurs.com, which now has 55,000 members, streams videos of fine films in 174 countries, and boasts alliances with film festivals in Cannes, Telluride, and Berlin. The company also hosts a discussion site on Facebook that attracts cinephiles.

### **Swaddle**

Aside from appearing on the cover of *People*, Angelina Jolie, Gwyneth Paltrow, and Bristol Palin have something else in common. They wrap their babies in soft, snuggly blankets from SwaddleDesigns, maker of all things comfy for the tiny tot set. Swaddle was founded by registered nurse Lynette Damir, mother of two children and spouse of the company's president and COO, Jeffrey Damir, MBA '93. Three of Jeff Damir's classmates were angel investors: Florian Pape, Ross Jones, and Jim Ellis.

### QuintessenceLabs

One of four creators of quantum key distribution, a quantum cryptography technology that super secures communications, **Vikram Sharma**, Sloan '02, founded QuintessenceLabs at Australian National University to commercialize it. In June, the company announced a partnership with Lockheed Martin to develop applications of the technology for markets in the United States and Australia.

### Lexy

Founded by pioneer web entrepreneurs Fred Campbell and Tony Levitan, both MBA '93, Lexy is a voice and text publishing platform for mobile phones. Content providers post short audio clips and text that can be downloaded on demand to any cell phone or to the web. Lexy seed-funder KPG Ventures calls the company "the third leg to the emergent social media stool — along with Facebook and Twitter."

### Vayulogic

In case you hadn't noticed, people are increasingly attached to

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their cell phones. In 2008, the number of mobile phone calls made in the United States was exceeded only by the 1 trillion text messages sent. After helping several internet and mobile startups get off the ground, **Victor Varney**, MBA '85, is CEO of Vayulogic, a text messaging platform that helps companies use mobile technology to communicate with their customers.

### **Algentis**

Algentis simplifies operations for small and medium-sized businesses by assuming the burden of employee administration, says **Brian Helmick**, MBA '05, who cofounded the company with classmate and co-president **Mike Sousa**. Algentis offers human resources services that include payroll, benefits, employee insurance, and compliance.

### **Jobnob**

Meet Julie Greenberg, matchmaker. Greenberg, MBA '01, is cofounder of Jobnob, a website that informs jobseekers by posting actual salaries paid to employees in cities around the United States. The service, which is free, allows anyone to search by salary, position, company, or city. But what to do while you look for a job? That's where the matchmaking comes in. Jobnob arranges happy hours that hook up early-stage startups that can't afford to pay salaries with job seekers who are willing to work at least five hours a week without pay for the experience or for a leg up on an eventual paying job.

### Ice Energy

Air conditioning can dangerously strain a power grid during midsummer days when electricity usage is at its peak. Ice Energy, cofounded by Frank Ramirez, MBA '83, has introduced the Ice Bear cooling unit, which freezes water in the air conditioner at night and uses the ice to cool the AC's refrigerant during the day. This not only takes pressure off the local electricity provider during crucial hours, but it also saves energy and reduces carbon emissions. In 2009 *Business Week* named Ice Energy one of "25 Companies to Watch in Energy Tech."

### **Sharp Brains**

Over the past decade the brain fitness and cognitive health market has grown so rapidly it has spawned a market research firm to follow it. Last spring Sharp Brains, cofounded by **Alvaro Fernandez**, MBA/MA '02, published both a research report for the industry (*The State of the Brain Fitness Software Market 2009*) and a book of interviews and advice for the mass market (*The Sharp Brain Guide to Brain Fitness*).

### **Idapted**

Every week, Adrian Li's Idapted delivers thousands of live, one-on-one English lessons through high-speed internet connections to students in China, all of them conducted by native English speakers in the United States. The U.S.-based teachers are independent contractors trained by Idapted to use the company's teaching

platform. The Chinese students, usually young professionals, have a rudimentary knowledge of English but want to improve their oral skills. Last spring, Idapted partnered with the British Council in a successful two-month pilot project involving 3,000 students in China's financial industry. Idapted provided the technology for the British Council's instructors. Li, MBA '06/MA '07, cofounded Idapted in 2006 and serves as its CEO.

### First Mile Health

Any runner will tell you the first mile is the hardest. Toure McCluskey, MBA '05, founded First Mile Health to get people up to and past that milestone. The company works with businesses and civic organizations to redesign employee benefits packages, implement healthrelated team events, and promote healthier workplace options. "We're not an off-theshelf wellness program," says McCluskey. "We substitute action and on-site activities for advice and generic information."



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Continued from page 7

crop was four times that of last year. Their first harvest was a time for jubilation at Nuru, but reality soon set in. In late August, Harriman received a message that read simply, "Isire has just killed his brother."

Isire, one of Nuru's best field officers, had been attacked with a machete by an older brother desperate to have Isire's land. "Here, land can mean the difference between abject starvation, poverty, or death of one's children and a promising future for the family," Harriman wrote.

Jake Harriman, MBA '08, left, and James Mango, discuss farming techniques in Kuria, Kenya.

Isire wrestled the machete from his brother and killed him. "The death of Isire's brother was yet another sobering reminder to me of why I feel so strongly that we, as citizens of the developed world, must engage in the war that is being waged all around us," Harriman wrote.



For a brief video interview of Jake Harriman, go to BizOnline.Stanford.edu

### For the Record

## MBA Class of 2011 Profile

GENERAL		
Total Applications	7,356	
New Students	385	
Women	34%	
International (includes permanent residents)	33%	
U.S. Minority	21%	
Advanced Degree Holders	15%	
YEARS OF WORK EXPERIENCE		
YEARS OF WORK EXPERIEN	ICE	
YEARS OF WORK EXPERIENT Range	0-21	
Range	0-21	
Range Median SCHOOL/GEOGRAPHIC	0-21	
Range Median SCHOOL/GEOGRAPHIC REPRESENTATION	0-21	

### **UNDERGRADUATE MAJORS**

Humanities/Social Sciences	47%
Engineering/Math/ Natural Sciences	36%
Business	17%
TOD 5 INDUSTRIES	

### TOP 5 INDUSTRIES

Investment Management <sup>1</sup>	30%
Consumer Products (manufacturing & services)	26%
Consulting	20%
Nonprofit/Government	9%
High-tech	6%

<sup>&</sup>lt;sup>1</sup>e.g., investment banking, hedge funds, private equity, venture capital. **SOURCE:** MBA Admissions Office as of September 2009.

## Knight Campus Takes Shape

When it is completed in 2011, the 360,000-square-foot Knight Management Center campus will be the School's intellectual commons, drawing faculty, students, and ideas from across the Stanford campus into a collaborative mix with the GSB community. Buildings are now rising on the site where ground was broken just over 12 months ago. Project costs, originally budgeted at \$350 million, are currently running below expectations.



### **SEPTEMBER 10, 2008** ▲

Dean Robert Joss; Philip H. Knight, MBA '62, who supported the project with a \$105 million gift; and Stanford Provost John Etchemendy turned the symbolic first shovels of dirt to start construction on the eight buildings that will make up the Knight Management Center.

### SEPTEMBER 2008 ▶

Mountains of rubble begin to accumulate as two existing buildings are razed. The resulting debris is sorted and recycled.



### OCTOBER 2008 ▶

Displaced trees are trucked to other parts of campus for storage until they can be returned as part of the new campus landscaping.



**Groundbreaking Ceremony Date** 

IGHT PHOTO BY LINDA CICERO; TOP LEFT PHOTO COURTESY OF NURU; BOTTOM PHOTOS BY ANNE KNUDSEN







Holes are drilled for the vertical

columns supporting upper floors

of buildings on the new campus.

OCTOBER 2008 ▲

AERIAL PHOTO BY SKYHAWK PHOTOGRAPHY; OTHERS BY ANNE KNUDSEN AND STEVE CASTILLO

**NOVEMBER 2008** ▲ Work doesn't stop as the rainy season begins.



MARCH 2009 ▲
Rebar is put in place for columns supporting floors of the underground parking structure.



The subterranean garage will be

**APRIL 2009** ▲

JULY 2009 ▲
I-beams are hoisted into place where they will form the frame for the Gunn Building.



**AUGUST 2009** ▲ The three-floor Gunn Building frame nears completion.

Learn more at www.gsb.stanford.edu/knightcenter

December 2009

**Completion Date** 

BIZONLINE.STANFORD.EDU STANFORD BUSINESS | WINTER 2009-10 11

# Warmer Community for Pets, Caretakers

IN MARCH, HUMANE SOCIETY SILICON VALLEY proudly swung open the doors of its new "animal community center," complete with space for kids' summer camps, art shows, corporate events, a weight management class for animals, and yoga classes for pets and their owners.

The facility reflects new thinking about what it means to be "humane" to animals. "We don't call it a shelter," said Christine Benninger, MBA '78, president of the organization.

The seeds for the center, located on Ames Avenue in Milpitas, Calif., were planted 16 years ago when Benninger left a career managing manufacturing sites for Hewlett-Packard to become the society's president — only to discover that the organization had just four months of money left. Her solution was to sign deals with local cities to provide animal control and shelter.

This solved the immediate problem but created another one. "The mission of animal control and the mission of the Humane Society conflict," she said. For example, animal control involves enforcing each city's limits on the number of pets a homeowner can have; the Humane Society is supported by people who like to take in animals. "You're citing your donors. It's very difficult," she said.

The group phased out its animal control duties. But there was a deeper problem: The Humane Society was euthanizing 7 of every 10 animals it took in.

Benninger and her team looked for the root cause. Spaying and neutering campaigns had been fairly successful, so the problem was more one of pet owners' commitment to keep animals for their lifetime than of overpopulation. Benninger looked for ways "to solidify the bond" between pets and their owners.

It was a new way to look at the problem. "Chris wasn't saying, 'What is the best practice? I want to replicate that," said Elena PernasGiz-Battles, MBA '04, the Humane Society's chief operating officer. "She was saying, 'What's the best thing to do, and how can we make it happen?""

Part of the solution was to replace the old facility, built in 1951 in Santa Clara, Calif. The building "created lots of stress for the animals," Benninger said. "And we had no ability to really engage with

After years of brainstorming and fundraising, the charity broke ground for its new facility in 2007. The center adheres to the Chinese aesthetic system of feng shui and expects to earn a gold-level LEED



For brief video interviews of Christine Benninger and Elena PernasGiz-Battles, go to BizOnline.Stanford.edu





Christine Benninger, MBA '78, plays with current residents of the Humane Society Silicon Valley's new community center in Milpitas, Calif.

certification for environmental soundness from the U.S. Green Building Council. In March 2009 the Humane Society moved in.

The difference from the old center is dramatic: Dogs at the center go outside several times a day, reducing the need for staff to clean the kennels. Cats live together in large rooms. A "rabbitat" displays rabbits living in a home-like setting, offering an alternative to visitors who want a pet that's less work than a dog and is less likely to cause allergic reactions than a cat.

Besides caring for homeless animals, which come from owners surrendering their animals, strays from the nearby city of Sunnyvale, and a regional rescue program that takes animals that may be euthanized by other shelters, the center offers a range of services to pet owners, including spay and neuter surgeries and the use of its dog park. Five staff veterinarians also perform other surgeries on the animals that live at the shelter — all behind a window that allows the public to watch.

The Humane Society even plans to start a weight management group for dogs and cats. "It sounds funny, but a lot of people don't know what to do with an overweight pet," Benninger said.

Humane Society Silicon Valley's ideas are "ahead of the curve," said David Williams, chief operating officer of the Michigan Humane Society, who invited Battles to help facilitate a retreat for his staff. "We know that solving homelessness for animals is not going to be done by building animal shelters — that is treating the symptom."

The society still faces challenges. It has raised \$20.5 million for the building but still has \$4.5 million to go, and it hopes to increase ani-

## Foundation for Furry Friends

IMEE GILBREATH, MBA '02, first learned about shelter euthanasia and pet overpopulation while volunteering for an animal rescue group. Her work led her to adopt a pit bull, Rufus, and also to become executive director of the Los Angeles-based Found Animals Foundation. The foundation works on several fronts to reduce the number of animals euthanized in shelters.

The first area is sterilization, Gilbreath said. The charity's flagship program is the Michelson Prize, a \$25 million award for creating a nonsurgical way to sterilize cats and dogs. The prize is named for foundation founder Dr. Gary K. Michelson, a spinal surgeon and inventor. A nonsurgical sterilant could be administered in the field, reducing the cost and eliminating obstacles like transportation. Gilbreath said it is expected to be at least several years before a product is developed that could win the prize.

The foundation also offers up to \$50 million in grants for promising projects related to nonsurgical sterilization. The first batch of grant applications is being reviewed by scientific advisors.

On a local level, the foundation makes grants to low-cost spay-and-neuter programs around Los Angeles and helps with strategy and outreach. It increases animal adoptions by producing webcasts featuring animals available for adoption. One recent promotion: why two cats are better than one.

Finally, Gilbreath said, the organization is looking at support for animal owners by working with shelters to determine why some people give up their pets. "Many animals used to be wanted and aren't anymore," she said.

mal adoptions from 4,000 to 10,000 a year.

Benninger draws on her GSB training and management experience to help the group develop a vision, set goals, and hold people accountable. "Emotion, which plays a big role in nonprofit work," she said, "can easily derail an organization if not managed in a positive way." •

# Balancing Career and Family Commitments

### Before heading off to high-pressure careers, both male and female MBAs explore how they can save bandwidth for their families.

FOR STANFORD'S AMBITIOUS MBA students, Myra H. Strober's Work and Family course can be full of aha moments. They hear, for example, that women who wait to have children may have trouble conceiving and that child care can take a big chunk out of a manager's income or eat up the whole income of some workers. Yet the cost of not working can be greater. And even workers without children may face challenges balancing work and family, including care for adult relatives.

For those not currently in business school, it may be surprising that the course exists at all or that the proportion of men enrolled in it has

"The men are fully engaged here," said Strober, professor emerita of education with a courtesy appointment as a professor of economics at the Business School. Some are motivated by a desire to be a good father; others want to understand workplace barriers that affect their wives, friends, or employees.

Enrollees in the 10-week course are almost exclusively second-year MBA students whose "thoughts have turned to life after the GSB," Strober said.

Strober started teaching the course — then titled Women and Work - in 1972 to undergraduates and a handful of female MBA students. Later she taught it at Stanford's School of Education. She started teaching the renamed course at the GSB in the early 2000s.

Students write two group papers, one on combining work and family and one on elder care, plus one individual paper on a topic of their choice. Through readings, lectures, class discussions, and talks by guest speakers, students look at the challenges and explore strategies for dealing with them. "A lot of women and men in the class have very, very strong career goals," Strober said. "They want to be successful at their careers, successful financially, and also have a family."

One example is Collin R. Hathaway, MBA '07, founder of Skylight

Capital, who was one of the men in the class two years ago. He returned this year, along with his Kellogg MBA wife, as a panelist. "My perfect relationship, if you'd asked me and I'd been really honest, was with a beautiful, smart woman with an MBA who then wants to stop everything and put me first," he said. "It sounds cool, but it's not a fair or reasonable request of someone you care about."

Hathaway said the class, which he counts among the most valuable courses he took at the Business School, changed his thinking on balancing his career goals, political aspirations, and family life. One idea that was new to him: looking at earnings over the long term, not just in a given year. Because workers who stop out generally earn less later on, dropping



Myra Strober

out of the workforce to save on child-care costs can be costly. (See related story on page 16.)

Strober lists other strategies used by high-performing workers - usually women - to make family life more manageable. Some have only one child. Some have spouses "who play a bigger role in the family than most husbands," she said.

Guest speaker Sandy Takahashi Shirai, MBA '89, Northern Pacific regional managing director for Deloitte Consulting, talks to the students about the pros and cons of having children later rather than earlier. "If you're the boss, it's easier to be flexible, and you have more financial flexibility," said Shirai, who had her daughter at 40. On the other hand, having children later is physically harder, she said.

As Deloitte's lead partner on the HP-Compag merger, Shirai said she worked "night and day on the biggest technology merger in history" before and after her daughter was born. Then Michael Capellas moved from Compaq CEO to WorldCom MCI CEO and asked Shirai (and Deloitte) to work for him in Virginia. Shirai's daughter was a baby and had just broken her leg.

"I was very tempted not to do the job," Shirai said. "On the other hand, I was very dedicated to Michael and his need to have the company emerge from bankruptcy. Thousands of people's jobs depended on it."

Her husband, a dentist, couldn't leave his practice. "I would never ask him to give up something he loves doing," Shirai said. So he and their daughter stayed near their extended families in California. Later, a colleague asked Shirai what she had done for her husband. Shirai said she had taken him out for dinner. The colleague said, "No, no, that's not big enough. You've got to get him a boat," Shirai recalled. She protested that her husband doesn't like boats, but she got the point: "I was taking my husband for granted. When other people help you, you need to absolutely make sure you acknowledge it."

Some workers choose their field with work-life balance in mind. Steve Dostart, MBA '90, president of Dostart Development Co. in Palo Alto, tells students how he decided to go into real estate development after a summer internship in finance.

"I liked the excitement" of finance, he said. But when he asked one vice president whom he admired how he balanced work and family, the man started laughing. He said he was going to sneak away from a work event that evening to attend his daughter's sixth birthday party. "I saw him at 6 o'clock, darting out through the cubicles, putting his head down so no one would see him," Dostart said. "I decided that's not going to be me."

Lindsey Maynard Cooksen, MBA '09, however, is drawn to finance. An advisor at Morgan Stanley, she thinks it will be easier to go back to work after having children if she is doing work she loves. In the class, she learned "there's no silver bullet to managing a lifestyle with two



working parents, but if you can make it work, it's beneficial to both your marriage and your children."

Dostart and his wife, Sharon Meers, also talk about building a marriage based on equal sharing of household work and importance placed on their careers. "It's a mindset that says dads are equally important to kids, and moms need careers as much as men do," said Meers, a former managing director at Goldman Sachs and the coauthor of the book Getting to 50/50.

Not everyone follows the same model for having children. Sharon Tetlow, MBA '86, senior vice president and chief financial officer at Cell Genesys Inc., adopted a child as a single mother. Although she continues to work full time at a high-level job, she has taken a job that's both closer to home and less demanding than she might have otherwise. "Stepping back in my career is just not something I ever planned to do," she said. "Taking on a child completely changes your ability to focus on your career."

Some parents find that the demands of parenthood are not compatible with high-powered careers, and they opt out of the workforce, at least for a time. One of the class sessions has a panel of graduates who are current and former stay-at-home moms and dads.

"We talk a lot about whether or not people have a moral obligation to work and remain in their field given that they've taken up a slot at the GSB," Strober said. If they do, she adds, then do employers have a corresponding obligation to try to make the workplace more accommodating to workers with families?

"The women in the class feel very strongly that they

don't want to be pushed into working," Strober said. "They don't want people to tell them that if they need to leave the workplace, they have sinned in some way."

In recent years the course has added discussion of elder-care, a subject that's important even to students who don't plan to have children. "It was really not on many people's minds that all of a sudden you could have four parents to deal with," Cooksen said.

Guest speaker Esther Koch, MBA '79, a gerontologist and elder-care advisor, encourages students to think not just about practical issues but about emotional ones: "How would you like it if your kids come to you and say you can't drive? How do you want to be treated when you're older?"



She also emphasizes that "elder care is not child care for the aged." With children, the needs are usually predictable, revolve around logistics, and decrease over time. "With elders, the needs increase over time, are frequently emergency in nature, and involve more complex and emotional family dynamics," said Koch, who is president and founder of Encore Management.

Students in Strober's course look at all these issues not just from a personal perspective but through the eyes of a manager. What does it mean to be leading a team or company where some workers are juggling family obligations?

Alumnus Hathaway runs a private equity firm that owns and man-Continued on page 16

# Ways to Calculate Costs of Break from Paid Work

HEN NEW PARENTS are struggling to juggle high-powered careers and young children, they sometimes do a quick calculation: Add up the cost of child care, commuting, and other work expenses; subtract it from the family's second income after taxes (using the couple's marginal tax rate).

Because U.S. childcare costs can run \$15,000 per child per year at a child care center or \$40,000 for a nanny, this calculation often shows that the family isn't benefitting much financially from that second income. This can lead couples to decide that one of them — usually the wife — should stop working, at least for a time.

In Professor **Myra Strober**'s *Work and Family* course, students learn to also take into account the impact on lifetime earnings.

When highly educated women leave the labor force for two years, they earn an average of 18 percent less on their return than they would have had they continued working, according to a study published in a 2007 book by Sylvia Ann Hewlett, *Off-Ramps and On-Ramps*.

The difference between dropping out and continuing to work could be larger or smaller for any individual, Strober points out. For example, a person who stays in the workforce might aggressively pursue promotions and earn more than average, or he or she might decide to pull back while continuing to work, earning less. The same is true for individuals who leave the workforce and return: The time it takes to regain a former earnings trajectory depends on the kind of job they get, which can be affected by everything from the industry to the strength of their networks.

One alumnae group is trying to help GSB women go beyond the drop-out or stay-in calculation to focus on developing skill sets for juggling parenthood with work, says Mercy Eyadiel of the MBA Career Management Center. One of the projects of the Business School's Women's Initiative Network (WIN) is collecting insights from alumnae who have handled transitions such as becoming consultants in order to better manage their careers and personal lives. "In our current work environment, knowing how to parachute into a position and work efficiently with a team is a great skill set that many successful women have developed. WIN would like to see more get training in those skills," Eyadiel says.

In any case, it is critical that both men and women value their careers equally, Strober said. "A couple shouldn't think that the cost of child care has to be covered by the wife's salary."

- By MARGARET STEEN



Stanford students attend Myra Strober's 1972 Women and Work class, the precursor to the Work and Family course she now teaches. Strober, inset photo, at an April 1975 Women in Management symposium sponsored by the GSB.

Continued from page 15

ages a plumbing company. He has lots of employees — mostly women who work in the call center — who have to take time off because their children are sick. "This class made me a little more empathetic about what our employees face," he said.

A big part of the class is students sharing their own experiences and ideas. When the class is discussing whether it's a good idea to leave the workforce while your children are young, students whose parents are divorced speak up about their mothers' struggles to support themselves.

"They are very vocal about telling the women in the class to keep their skills alive if they drop out of the workplace," Strober said.

Cooksen said she enjoyed hearing about how her classmates were raised: some by nannies, some by single parents, some by stay-at-home moms. "I think it was very advantageous to see, one, that all of those methods are used and, two, that all of those children turned out just fine," she said.

At one evening session, students were invited to bring their significant others. They questioned a panel of three couples, all students or recent MBA graduates: When you're both job-hunting at the same time and one gets an offer, do you accept it without knowing if your partner will have work in that city? How do you handle your finances: Is money pooled or do you each have separate accounts?

Many of the questions the course raises haven't changed over the years. "But I think our answers become more and more sophisticated," Shirai said, as more women reach the top levels of corporate America.

Meers agreed. "What Myra is doing is revolutionary in the best sense. If every university in the country did it, corporate America would be dramatically more productive and save billions in needless turnover."

# Tinseltown **Tactician**

YOU'RE PRODUCING A MOTION picture and you need a snowstorm at the St. Louis airport - during the summer. Done. You have to film daytime scenes at night because a certain starlet isn't a morning person. Difficult, but done. A Teamsters Union official pulls a baseball bat from behind his desk and says that's how problems are dealt with in the Big Easy. You run!

Luckily for Michael Beugg, MBA '90, who's been on the production side of film and television projects for the past 15 years, the union official said it was only a joke and proceeded to finish labor negotiations for workers on Hurricane Season, a film that recently wrapped up production in New Orleans.

"I'm the guy who's working behind the scenes up until filming ends," Beugg said, "at which point approximately 90% of a project's budget is spent."

If it's not hammering out labor contracts or working with airport security officials on filming around daily operations in a soon-to-bereleased film about a corporate downsizer starring George Clooney, it's putting out unexpected fires. Jeff Probst, host of reality television show Survivor, was set to parachute and then ride off on a nearby waiting motorcycle for the show's season finale. Two days before the start of filming, however, Beugg learned that Probst had never parachuted before, nor had he ridden a motorcycle. After Beugg coordinated some hasty training sessions, the show went off without a hitch.

### Beugg's career path has about as many plot twists as Little Miss Sunshine, a recent Oscar-winning movie for which he was executive producer.

Beugg, whose projects include Thank You for Smoking, America's Most Wanted, and He's Just Not That Into You, is primarily responsible for bringing a project to completion on schedule and within budget. His current responsibilities make his days of producing the GSB student show - where he wrote, sang, acted, and directed - seem like kid's stuff.

The business side of Hollywood, however, wasn't his first calling, nor his second, or third. Beugg's career path has about as many plot twists as did a recent Oscar-winning movie for which he was executive producer, Little Miss Sunshine. From his pre-med days at Yale to his current post as producer for hire at his Federal Films, Beugg has never been afraid to give a new line of work a try.

Halfway through his undergrad years, he changed to a major in business while still making time to take a few film and music courses.



Michael Beugg, MBA '90, on the Paramount Studios lot in Hollywood, Calif. His most recent production, Up in the Air, is slated to be released by Paramount in early December.

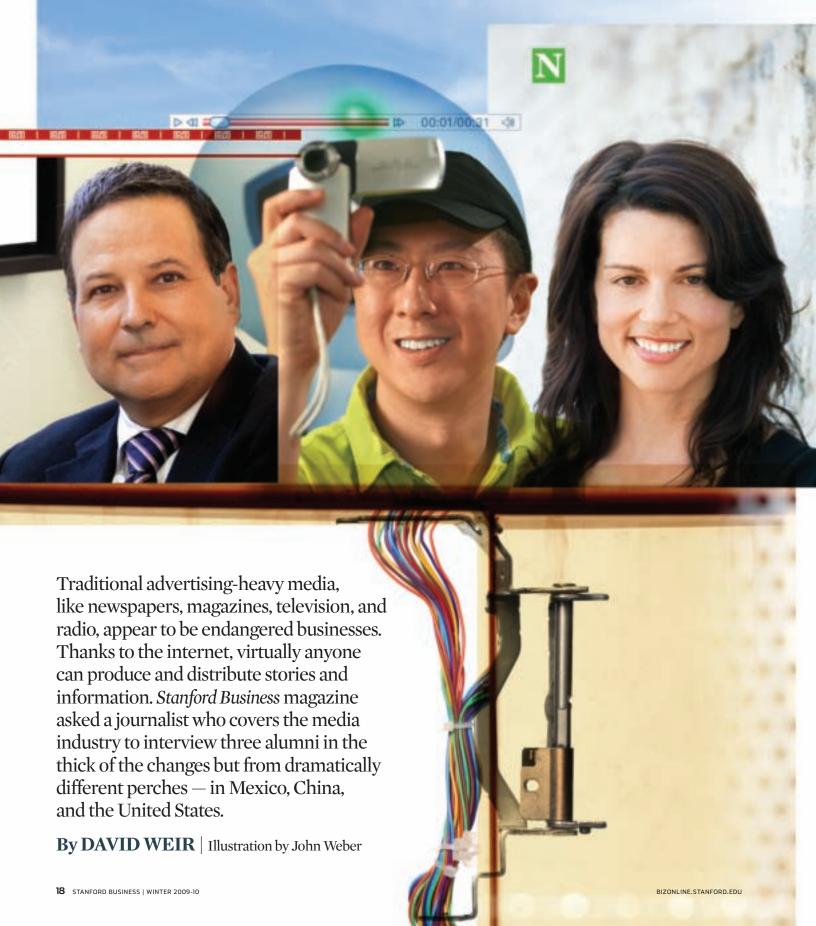
Then he went into an associate's program at Boston Consulting Group's Chicago office but spent his evenings at an acting studio.

Giving consulting a fair shake but learning it wasn't for him, Beugg came to the Business School in 1988. After graduation he joined the White House Budget Office, where Bob Grady, MBA '88, was associate executive director. Beugg's three-year post bridged the elder Bush and Clinton administrations. He continued to take acting classes while in D.C. and in 1994 heeded a childhood friend's persistent requests to come work in Hollywood, where he helped produce a short film for then little-known actor Billy Bob Thornton. That short was the precursor to the Oscar-winning full-length feature Sling Blade.

As they say in the movies, "the rest is history." In the past 15 years Beugg has produced nearly three dozen film and television projects while raising three children with his wife, Linda. When he started in the industry the studios were resistant to MBAs, he says. But as they became more like Fortune 500 companies, MBAs started filling many of the divisions.

Despite his interest in acting and years working in the industry, don't expect to see Beugg in any leading roles. "Right now my dream would be to get more producing jobs here in Los Angeles," he said, referring to how working on a filming location can keep him away from home for weeks at a time. "That way I can spend more time with my family." •

# Three Alums on the State of the Media



# Mexico's Grupo Reforma: 18,000 Citizen Editors

Executives inside the troubled U.S. newspaper industry are searching desperately for ways to return to financial health. They could do worse than to take a peek south of the border at Grupo Reforma, Mexico's leading newspaper company.

Grupo Reforma publishes 10 newspapers in 5 Mexican cities with an average daily circulation of 1.5 million. These include the largest metro newspapers in Mexico City (Reforma), Monterrey (El Norte), and Guadalajara (Mural).

Jorge Meléndez, 46, is vice president of new media for the company, where he has worked in a variety of positions for the past 18 years. He says the types of financial problems facing newspapers in the United States falling circulation and advertising revenues, waves of layoffs and buyouts, burdensome debt loads - have been avoided at Grupo Reforma.

"Our major broadsheets, the ones you can compare to the New York Times, Los Angeles Times, the Chicago Tribune, have stable circulation and have maintained advertising growth over the last 10 years," says Meléndez.

### "WHEN YOU PICK UP **EL NORTE, IT BETTER SMELL** LIKE CABRITO."

One reason, he says, is an "ultra-local" concept - that newspapers need to be embedded in their communities. "We have a saying in Monterrey, where grilled cabrito [young goat meat] is one of the main regional dishes: 'When you pick up El Norte, it better smell like cabrito."

The company also has developed unique ways to interact with readers in their communities and to build reader loyalty. The newspapers have created a series of editorial boards, each composed of 12 to 14 community leaders, corresponding to every section of the newspaper - autos, food, fashion, and so forth.

The community boards meet with section editors at the paper every week or two to discuss three standing agenda items:

- What the section is doing well.
- What the section is doing poorly (and how to fix that).
- New ideas for sources, stories, or sections. There is no compensation for board members; the term is typically one year, save for two or three members who stay on to preserve

The company's commitment to the boards is such that it pledges that it will fix whatever it is doing wrong and enact the ideas for new coverage or else explain why it cannot do so "to the board's satisfaction."

"Each year we have 900 people sit on these boards, and we've been doing this for 20 years," Meléndez says. Giving over this control to the community is entirely alien to the U.S. newspaper culture, and yet, in an age of "citizen journalism" and social media, it's precisely these kinds of ties U.S. companies need to learn how to forge if they are going to survive in the digital age.

"The community is a gold mine," he says, "because we have to know when we are wrong so we can correct it." Over the years, roughly 18,000 people have served on the boards, so they now make up 10 percent of the group's subscriber base.

"They are extremely loyal, plus they know how we work," Meléndez says. "They know who to call or email. They are a source of stories, new sections, and opportunities."

There are many other things U.S. newspapers could learn from Grupo Reforma, including how to survive the transition from free to paid content online. The company made this change seven years ago and now allows print subscribers free access to all of its websites. Others must subscribe to the web version, which is priced at 80 percent of the newsstand price.

How the company pulled this off goes back to those community editorial boards. It used them essentially as focus groups to figure out how to help as much of the audience as possible make the transition. The boards held many meetings with readers helping them learn how to access the websites and create passwords. A lot of communication was involved as they



Jorge Meléndez **MBA'88** 

Meléndez grew up in Monterrey, Mexico, as the oldest of five children, including three brothers who all earned MBAs in the United States. He attended Stanford on a Fulbright scholarship.

"Stanford was fantastic," he says. "It widened my horizon to know that I could be a top-notch executive anywhere I wanted. It gave me some great professional tools, lots of friends, a great network, but most importantly a different perspective on life."

He also met his wife while at Stanford; they have been married for 20 years and have 3 teenagers.

slowly brought the readers along. "We thought we would lose 90 to 95 percent of our online readers, but working with the boards, we lost only about 25 to 30 percent," Meléndez says. "And you know what? Our internet advertising revenues actually went up that year!"

Another key to the group's success is the production of multiple editions targeted at different audience segments. Inner-city inhabitants get tabloid editions with plenty of photos and an "emphasis on police stories, girls, and entertainment."

One of these in Mexico City has grown from a circulation of 25,000 seven years ago to 320,000 today. "It is a very aggressive paper," he says, "and very well designed to appeal to its audience."

Next up are the big city metro broadsheets, which do award-winning investigative reporting about drug lords, government corruption,

and business scandal, and have successfully campaigned for open elections, a freedom-of-information law, and other important national reforms.

Covering the drug war is particularly demanding because of the Wild West–style ruthlessness that produces a steady series of brutal murders. The company covers the drug violence closely but publishes no bylines to protect its reporters from retribution.

Finally, besides the tabloids and the broadsheets, the company produces a regular set of suburban editions for its wealthier readers. These once again take advantage of the group's tight relationship with its readers, as they are thick, photo-crammed books covering the marriages, vacations, and lifestyles of Mexico's wealthy.

The rich families clearly welcome the group's reporters and photographers into the intimate routines of their daily lives, which is not always the case in the United States. In the process, the group gets to collect lots of hyper-local advertising from the restaurants, furniture stores, resorts, and other businesses that cater to these prime consumers.

From a business perspective, margins in places like Sierra Madre, the suburban Monterrey county that is the wealthiest in Mexico, are impressive: An investment of only 20% of the company's overall production costs yields a return of fully 50% of its total ad revenues. There are additional factors behind Grupo Reforma's success including its early and consistent focus on technology, which in turn led it to establish one of the earliest major websites in Mexico as well as a proprietary printing system.

With his excellent English and U.S. degree, Meléndez has often served as a point man in attempts to establish partnerships with other North American newspaper companies. In this role, he says he is astonished to see the difference in focus at the top of the U.S. companies as opposed to his company.

"In the U.S., being editor-in-chief of a newspaper seems to mean something quite different than it does here," he says. "They seem to see themselves as stars who appear on television and go on long book tours. Here, if I am the editor-in-chief [one of the jobs he has held in the past], I don't travel, I don't write books. If I did, I probably wouldn't be doing the best job of covering my city.

"A newspaper begins at the local, then covers the national, then the international. But it all starts at home."

# China's Youku: Video On-Demand for the Masses

Half a world away from Monterrey, Mexico, Victor Koo faces a different set of challenges than Meléndez. At his offices in Beijing, Koo is the cofounder of Youku, the leading video platform in the world's most populous country.

You might say that Youku, which means "what's best and what's cool" in Chinese, is the YouTube of China, except that it is closer to Hulu, a free online video service in the United States that offers hit TV shows. Rather than the user-generated content that forms the core of YouTube, "Youku serves as a nationwide ondemand video content syndication platform with over 1,500 traditional media partners," explains Koo. "Professional media content constitutes over 70% of our viewership."

China's internet audience has exploded this decade to the point where it now is 340 million, the largest in the world. With online video penetration above 80%, an estimated 300 million users are watching video over the internet in China late in 2009.

# VIDEO REQUIRES MORE FOCUSED ATTENTION THAN TEXT.

There were some 200 online video companies when Youku launched in 2006, but Koo says that the company now holds better than a 50% market share in terms of user time spent. It boasts of more than 150 million unique visitors every month, with each spending an average of an hour per day.

How did they get so big so fast? Partly, it appears, by nailing video search technology, partly by nailing customization, and partly by building strong relationships with China's state-owned media companies.

Search and customization technologies are closely intertwined.

"Video viewing is fundamentally different from reading text," Koo explains. "One can read 10 headlines together and grasp a variety of information, whereas it is impossible to open 10 different video windows and effectively watch them all at once.

"As such, finding the right video to watch is a lot more important for a video website," he continues, "as you require a lot more focused attention from your users. We believe one of the most important benchmarks for a leading video platform is the ability to help users find 'what's best and what's cool' based on each user's individual preferences."

Next, Youku had to forge partnerships with government-owned television stations and other state media. The production of professional content is highly fragmented in China, with around 300 TV companies and thousands of channels as well as thousands of media production companies, so this required a nation-wide effort.

Complicating this challenge is the fact that not only does the government own the media, it very tightly regulates what types of content can be published, censoring political, religious, and sexual content as well as most foreign media.

News about the rebellion that broke out inside Iran after last spring's disputed election, for example, has been heavily censored by the Chinese government.

Western observers believe that Beijing fears that news of how tech-savvy Iranians have been able to organize protests and get around a ban on media coverage via social media like Twitter, proxy servers, and a variety of viral communication strategies could prove contagious in the event of future social unrest inside China.

Youku is regulated by the State Administration of Film, Radio, and Television. "We actively monitor video content uploaded by our partners and users," Koo says. "For example, we actively screen out any pornographic, or even racy, content."

By early 2008, Koo and his associates were ready to begin recruiting advertisers in earnest. They offered a safe environment for advertisers juxtaposed with highly desirable professional content, and brand names have shown up by the truckload.

Youku has booked ad revenue from over 290 companies to date including P&G, Unilever, Coke, Pepsi, Nike, Adidas, L'Oréal, IBM, Microsoft, Google, Samsung, Nokia, Sony Ericsson, Motorola, Mercedes-Benz, BMW, and VW/Audi, as well as the leading domestic brands.

The company also earns search ad revenue



Victor Koo **MBA** '94

Koo was born in Hong Kong and spent his high school and first two university years in Australia before leaving Sydney University to attend the University of California, Berkeley, as a Regents' Scholar. He entered Stanford's MBA Program while working for Bain and Co.

He is married and has a son; the family is based in Beijing but travels frequently to Shanghai. He remembers Stanford as "a very free-form, open learning environment, especially the second year in business school, when we had the opportunity to listen to many entrepreneurs and venture capitalists about their life experiences. This is one of the key reasons I have stayed and thrived in entrepreneurial companies since I graduated."

Koo was formerly COO of Sohu.com, one of China's largest internet portals, before cofounding Youku — the leading online video platform in China - in 2006.

through a partnership with search giants Baidu and Google. The company recently launched its 3G mobile subscription version of Youku, and also a video e-commerce partnership with Taobao, the eBay of China.

"Proving our business model is the most important challenge at hand," says Koo, "and extending our product model from PC to wireless and TV are longer-term challenges. We provide TV-like, cross-media, and internet marketing solutions to our advertiser clients that are growing rapidly. We see a growing and satisfied advertiser base that is increasing marketing spending on our platform quickly."

# USA's Ning: Networking for Many-Faceted Folks

Gina Bianchini, CEO and cofounder of Ning, which is headquartered in Palo Alto, thinks Americans are still in the experimental stage with new social media. She is trying to position her fast-growing company, which she cofounded with Netscape founder Marc Andreessen in 2004, as the laboratory of

Bianchini describes Ning as a "social platform that allows users to both create and join as many social networks as they wish to follow their interests and their passions." In essence, it allows people to establish separate Facebook-like networks for each of their interests, so you might have a network of sports buddies, a separate network for film buffs, and a third for raising young children.

Many of these Ning networks are quite small - she describes them as "Neighborhood Watch-type groups" - but others, like an alternative wind power network, serve as a clearinghouse for hundreds of groups working on an issue.

If the issue of timing is everything — and according to Malcolm Gladwell's Outliers: The Story of Success, it often is — then Ning's entry point into this space appears to have been almost perfect.

Bianchini and Andreessen have spent five years crafting a company positioned to benefit from one of the fastest-growing business segments on the planet. Many Silicon Valley executives believe that social media, and the emergence of "real-time information," is a huge game changer for businesses of all types, but especially for the media industry.

Twitter, for example, has become what could be called "the breaking news channel of choice," where those who break the news are not journalists but simply people in

And Facebook has successfully challenged Yahoo and Google to emerge as one of three megasites on the web, according to Compete. com and other metrics agencies.

In this context, Ning seems a perfect solution for those who seek do-it-vourself or business-to-business solutions for pursuing their social media strategy, as opposed to Facebook's über-platform and Twitter's chaotic stream of tweets. Bianchini says Ning is growing at an impressive pace:

■ There are now over 1.4 million Ning networks about everything from the rapper 50 Cent to the Twilight books to the Pickens Plan — the hub for wind energy activists.



Gina Bianchini **MBA** '00

Bianchini grew up in Cupertino, one of three children of a high school history teacher father and a homemaker mother who, when she was widowed at the age of 36, raised her three teenagers through a combination of odd jobs and grit.

After working her way through Stanford for her undergrad degree, Bianchini put in a stint at Goldman Sachs before returning to the Farm to get her MBA. Ever the multitasker, she incubated a startup while earning her degree. While at Stanford, she met Marc Andreessen, cofounder of Netscape and one of the most respected investors in the business. They launched Ning together in 2004.

"The GSB enabled me to augment the functional areas in which I had less experience going in," she says. "It gave me two years to reflect and mature, which I believe made me a much better CEO and founder than I would have been without that time, coursework, and, most importantly, classmates."

- Over 4,000 new networks are being created every day.
- Registered users number over 30 million, "and we are adding another million every 13 days."
- The site receives about 3-billion-page Continued on page 32

# Mathematical Healer Stefanos Zenios

How can America make health care accessible to more individuals at the same time it improves the care people get? Business School Professor Stefanos Zenios has a two-track approach: Train business, engineering, and medical entrepreneurs to bring more rigor and discipline to the development of new treatments, and take into account practical constraints on health care systems when developing innovative solutions to medical problems.

FOR THREE DAYS RECENTLY, Stefanos Zenios sat in a room in San Francisco General Hospital watching a doctor and nurse perform colonoscopies. Peering through his half-rim glasses as test after test was conducted, he wrote copious notes in hopes of understanding why the test was available to so few of the public hospital's patients.

Zenios is the Charles A. Holloway Professor of Operations, Information, and Technology at the Business School, a GSB Trust Faculty Fellow for 2009-10, and a professor, by courtesy, in Stanford's Department of Bioengineering. In business schools, operations faculty normally are experts in fixing supply chains or customer service lines. Zenios hangs out with physicians, engineers, venture capitalists, and makers of medical equipment because he is passionate about slaying dragons within health care delivery systems. Those dragons are the written and unwritten rules that constrain how hospitals, clinics, insurance companies, regulators, and manufacturers of medical products choose medical technologies and, indirectly, the patients who get access to them.

"I believe new technologies, if combined with new policies that reward providers for quality care, will improve medical outcomes at better prices than we have today," he says.

Believing is not enough, however, and Zenios acts on two tracks. Since 2005, he has worked with other Stanford faculty to train a new generation of businesspeople, doctors, and engineers in medical innovation. A two-quarter Biodesign Innovation course, a related year-long fellowship program, and now a textbook (see related story on page 25) serve his overall goal of teaching others how to make health care more effective and accessible to more people.

His second approach is to continue his own research into improving access to health care. Already Zenios has been instrumental in expanding HIV testing in poor countries and the availability of organs for transplant in the United States. Health care is the "perfect" application of operations research, he says, because its systems are "plagued by access problems driven by inefficiencies. These result when people, technology, and information are not coordinated." By using data gathered from the real world and analyzing it with mathematical and economic models, he can recommend changes to improve coordination and access.

Cyprus-born Zenios jokes that his wife calls him a "pseudo-doctor." As a child he wanted to become a doctor, but his father encouraged him to pursue math, a field where he shined. At Cambridge University, Zenios focused on "applicable math," mathematics applied to the social sciences.

He first encountered mathematical modeling for health care at Massachusetts Institute of Technology while pursuing a PHD and working with Professor Lawrence Wein, now the Stanford Business School's Paul E. Holden Pro-

By Meredith Alexander Kunz

PHOTOGRAPH BY JONATHAN SPRAGUE



fessor of Management Science. Wein asked Zenios to help refine HIV testing. In countries where health care providers could not afford to test every person's blood separately, doctors wanted to pool samples as a first screening step in locating infections, but it wasn't a simple change — the test would need to be recalibrated mathematically to ensure correct results.

Zenios' first modeling attempts were unsuccessful. Then **Constantia Petrou**, a fellow Cypriot who was a PHD student at the School of Public Health at rival Harvard and another bridge into the medical world for Zenios, suggested ways to improve the model. He experimented more; the model worked and led to a test with improved accuracy. He was hooked on health care.

"I learned how to model something with social value, and how to work with [medical] experts to develop mathematical models," he says. He also formed a lasting bond with Petrou: The two married and are parents to 12-year-old daughter Panayiota and 7-year-old son Andreas. Petrou earned an MBA from Stanford in 2002, and today Zenios is a consultant to her company, Culmini, which develops web tools to help patients and their families cut through information clutter and discuss with their doctor what to do to get a successful treatment.

he began working recently on a project with the California Health Care Foundation aimed at helping innovators concentrate on developing devices that would be affordable both for patients with sufficient insurance coverage and for the underinsured or uninsured. Which takes us back to the colonoscopies. The procedure itself is not new, but at a June workshop for venture capitalists, medical tech developers, and foundation leaders, Zenios suggested what aspects of the technology needed to change to improve access.

The current process requires a physician to control the scope and a nurse to assist by monitoring the patient's vital signs. Whenever a polyp is discovered, the physician has to stop while the nurse uses a forceps to take a biopsy. Zenios wondered: Could a new technology enable one person to perform all tasks?

"If we could do that, we could do twice as many colonoscopies — double capacity," he says. That would enable public hospitals to more broadly screen for colon cancer and other intestinal diseases. Now San Francisco General has only enough resources to test patients with a suspected problem. Equally or more important, Zenios points out, such a technology change would also be attractive for health care providers that serve patients with insurance. The California Health

# If doctors could be paid for health results, they could focus on improving patient outcomes overall, not simply expanding services.

When Zenios began to study the kidney transplant waiting list with **Glenn Chertow**, now a professor at Stanford Medical School, he modeled ways of organizing organ transplants to see how they affected access and outcomes. The work provided the template for subsequent efforts by the U.S. transplant community to improve the organ allocation system. Later he collaborated with Lainie Ross at the University of Chicago Medical Center on an effort to change the ground rules for kidney exchanges, the networks that help people find a kidney match more quickly, by introducing more flexibility into the transplant waiting list.

For instance, a patient may have a relative willing to donate a kidney, but that kidney is not a tissue match. Under Zenios' and Ross' flexible rules, the relative could give the kidney to a stranger on the waiting list. Then the first patient could gain a higher priority for the next available match. The problem is that in some cases the higher priority patient displaces another patient who ends up waiting longer, something that would violate the ethical principle of "first do no harm" and would reduce the second patient's access to transplantation. Zenios and Ross identified the cases under which this would happen and introduced guidelines to ensure that such exchanges did not occur. Current kidney exchanges operate under these guidelines, and an unprecedented eight-way kidney swap occurred in July.

ENIOS ACKNOWLEDGES that the technologies he studies and the process he co-teaches in the *Biodesign Innovation* course "address the needs of a well-insured population." What about those who are not insured or whose patchy coverage won't pay \$20,000 for a new device? Today the U.S. health care system as a whole seems to be in critical condition, a victim of its rising costs and diminishing number of insured Americans.

With 50 million people under- or uninsured, he says, "we need to modify the biodesign process to develop devices that can be used in constrained settings" such as public hospitals and clinics. That is why

Care Foundation has extended funding to the pilot to enable more comprehensive analysis of the technological needs of public hospitals and how these needs can be addressed using the biodesign process.

In September 2009, Zenios introduced an MBA seminar, *Field Trips to Grassroots Innovators in Health Care: Improving Access and Outcomes for the Underserved.* In it, he asks students to examine devices and information systems created by health care providers for their uninsured patients and come up with ways to market these products profitably. One promising idea: a streamlined electronic referral system that could help patients see specialists more quickly.

HE REAL PROBLEM behind the rising health care costs and exploding numbers of uninsured, he says, is not pricey technology but the incentives driving their use. "Right now, the only viable [business] model for innovators is selling more devices, selling more drugs," he says. This means commercially viable technologies are the ones that increase the number of procedures performed, not the ones eliminating procedures or making procedures more efficient. This improves outcomes for patients but it drives up costs.

If, instead, doctors could be paid for health results, they could focus more on the big picture — improving their patients' outcomes overall with the least waste of resources.

"Providers need to get rewarded for quality of care. This will improve outcomes, reduce waste, and create incentives for innovators to develop new types of technologies," Zenios says. It's a topic he explores in his MBA course *Medical Technologies: From Innovators to Providers and Patients*.

Change may be coming as medical payers develop new reimbursement plans. Already, "both the government and insurers are experimenting with pay for performance," he says.

As the health care system's incentive problems become more obvious through public debate, says colleague and co-teacher Professor **Paul Yock**, Zenios is "the right guy at the right time."

# Guidebook for Biodesign Innovation

RESSED IN A DARK SPORTS JACKET and crisp buttondown shirt that makes him look slightly out of place, **Stefanos Zenios** works the room, a lab with tables of grad students and doctors at Stanford Medical School. He listens as one group discusses a treatment approach to sleep apnea. At the first pause he asks: "In one sentence, what is the value proposition of the product?"

Students appreciate this question. "The other faculty members are physicians, and they are very technically and clinically oriented," says **Ravi Pamnani**, a graduate student in engineering. "People can get lost in the technology or clinical aspects. He asks you the basic business questions to make sure you're asking them."

Welcome to *Biodesign Innovation*, the path-breaking Stanford course for doctors, engineers, and business students who, over two quarters in small, cross-disciplinary groups, identify a medical need and an invention to fill it, create business plans, and present them to venture capitalists.

The forerunners to this cross-disciplinary program began in engineering schools decades ago to deal with such health problems as weightlessness for astronauts. Later, engineers became involved in designing physical devices like hip replacements. Stanford took collaboration many steps further and in 2005 added the perspective of business management when health care operations expert Stefanos Zenios of the Business School joined the biodesign faculty.

Zenios "transformed what the class does," because of his "deep understanding of the innovation process," says Paul Yock, the Martha Meier Weil Professor in the School of Medicine and a professor of bioengineering with courtesy appointments in the Engineering and Business schools. He and Todd Brinton, a clinical assistant professor in medicine, co-teach the course with Zenios.

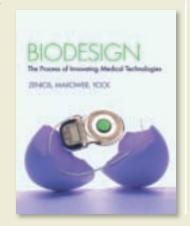
The object is not to establish medical technology companies, Yock says, though one or more usually come from each year's course. The point is to develop the observational and conceptual skills that graduate students need from fields besides their own. Zenios focuses students on how to get investors to fund the long development period of their products and insurers to pay for these products when doctors use them in patient care.

THIS FALL, THE TEACHING TEAM took another step by turning their course reader into the first comprehensive textbook for what Zenios sees as a new direction in medical device innovation. *Biodesign: The Process of Innovating Medical Technologies* (Cambridge University Press), co-edited with Yock and **Josh Makower**, a consulting associate professor in medicine, helps innovators master a three-phase biodesign process: identifying a medical need, inventing a device

or service, and implementing its use.

"We believe the book is a template for teaching innovation and entrepreneurship in industry verticals as opposed to the industry-agnostic approach that has been the norm in business schools," Zenios says. By that he means that entrepreneurs in medical technology need analytical skills to address constraints in health care systems. The constraints also require collaboration among people trained in

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A student team in the interdisciplinary Biodesign Innovation course works on developing a vacuum tube device to reduce infections among hospital patients who must be on ventilators. From left to right are bioengineering students Min-Sun Son and Phil Aguilar, and Dennis Jones who graduated in June from the MBA Program.

the differing ways of approaching problems.

GSB alumni are among the 100-plus individuals who contributed insights to the book, says **Lyn Denend**, the book's principal writer. Here are a few of their business-related insights:

**Moshe Pinto**, MBA '07, CEO of Spiracur Inc., a developer of technology for healing tissue, on internet patent searches:

"If you run a search on the words 'pressure sores,' you will get 60,000 patents. There is an initial evaluation of the patents that almost anyone can do just looking at the abstracts. But when it's time to derive conclusions, it's important to have someone who is legally savvy."

**Colin Cahill**, MBA '06, CEO of Simpirica Spine, working on a minimally invasive spinal implant for treating back pain, on choosing advisors:

"You need to find a doctor who thinks for him or herself and isn't trying to come up with a right-sounding answer. ... Using a variety of sources to understand an expert's reputation is important before committing."

**Dr. Frederic Moll**, Sloan '88, founder and CEO of Hansen Medical, which specializes in surgical robotics, on intellectual property strategy:

"You need to have a disciplined way to ... collect invention disclosures and turn them into a continuous stream of new filings that protect the newer aspects of the technology."

**Ellen Koskinas**, MBA '93, partner at venture capital firm InterWest Partners, on effective business plans:

"Be really clear about the product's value proposition, why it's superior to existing or emerging competitors' technologies, and how the different constituencies [physicians, patients, payers] are impacted."

**Darin Buxbaum**, MBA '07, president and CEO of HourGlass Technologies, which is developing treatments for the morbidly obese, on disclosures to potential investors:

"You don't want to disclose anything that you wouldn't be comfortable sharing with a competitor." •

BY MEREDITH ALEXANDER KUNZ and KATHLEEN O'TOOLE

# Temper Your Trust to Avoid Financial Rip-Offs

TRUST MAY BE "THE ALL-POWERFUL LUBRICANT that keeps the economic wheels turning," but Bernie Madoff's Ponzi scheme is just the latest example of the catastrophes that can result when those economic wheels turn too smoothly, according to Stanford Business School Professor Roderick M. Kramer.

Kramer, the William R. Kimball Professor of Organizational Behavior, is a social psychologist who has been studying trust for more than 20 years. He drew on his own and others' research for an article in the June 2009 issue of Harvard Business Review on why people trust, why trust can get us into trouble, and what we can do to protect ourselves.

"What surprised me was the level of abuse of trust throughout the financial industries: its magnitude, its pervasiveness, and its duration,"

Trust tends to be cyclical: When oversight systems seem to be working, people become less vigilant. "We don't want to spend a lot of money to catch what we think are rare incidents of abuse," he said. Then a crisis occurs, and "suddenly there's an outcry and people are willing to pay more and be more vigilant. Complacency is one of the dynamics that perpetuates periodic trust failures."

When people are too trusting, they can become victims. But people who are too distrusting may cut themselves off from beneficial relationships, Kramer said. "It's a really tricky thing to get right."

"Tempered trust," he suggests, is a way to continue trusting — but with prudent checks that could stop the next Madoff-like scheme.

Humans are born trusting – we have to be, since we are completely dependent on caregivers early in life.

"In many ways, trust is our default position," Kramer wrote. "The

tendency to trust made sense in our evolutionary history." But while trust has helped humans survive as a species, individuals often make mistakes about whom to trust.

One reason is what psychologists call "confirmation bias." We give more weight to evidence that supports what we already think and ignore information that contradicts it. Also, people's judgments about whom to trust are influenced by subconscious stereotypes about other people's trustworthiness, which can cause us to trust even when we shouldn't.

Even if people understand that it's possible to be duped, they don't believe it will happen to them. When he has taught negotiation and power to MBAs, Kramer writes, 77% of his students estimate that they are in the top 25% of their class in their ability to judge how trustworthy and honest other people are.

More generally, people tend to underestimate the chances of something bad happening to them and overestimate the chances of something good happening.

Mistaken judgments can extend to third parties who "lull people into a false sense of security." Kramer cites Madoff's cultivation of victims from the tight-knit Orthodox

Jewish community. "At the GSB," he adds, "students are taught how great networks are, but they should realize networks can be webs that ensnare people too."

Kramer identifies seven steps people can take to trust more prudently.

- 1) Know yourself. Some people are overly trusting; others tend to assume the worst about others. Figure out which category you fall into so you know what to work on.
- 2) Start small. "Trust entails risk. There's no way to avoid that," Kramer wrote. But you'll minimize the risk if you begin a relationship by taking small risks. This lets you assess the other person's trustworthiness while sending signals that you are interested in a mutually trusting relationship.
- 3) Write an escape clause. If both you and the other party know that you have a backup plan, you'll be able to engage with more commitment, knowing that the system is set up to withstand "the occasional, unavoidable mistakes that permeate any complex organization or social system."
- 4) Send strong signals. If others see that you are diligent, it will deter potential predators, who are looking for easy victims.
- **5) Recognize the other person's dilemma**. To build trust, you have to put yourself in the other party's shoes and reassure him that you are trustworthy. "A lot of leaders don't realize that they should be doing



more to communicate the importance of trust and the fact that they are trustworthy themselves," Kramer said.

**6) Look at roles as well as people**. "Deep trust in a role ... can be a substitute for personal experience with an individual," Kramer wrote. We trust engineers, for example, because of their training.

7) Remain vigilant and always question. Many of Madoff's victims did their due diligence before investing their money with him initially. "But once they'd made their decision, their attention turned elsewhere," Kramer wrote. Questioning people we have already decided to trust is uncomfortable but essential in cases where the stakes are high.

If everyone practiced this "tempered trust," would the species still gain the benefits of trust while individuals would be more protected? Kramer thinks so: "Tempered trust increases the chances we will reap the benefits of trust when interacting with trustworthy people and minimizes the damage from violated or abused trust when we happen to be dealing with someone who is untrustworthy. This principle holds for both individual-level and collective-level transactions."

### >More Faculty Research

## Courting So-So Customers Could Be Good for Business

MARKETERS OFTEN LAVISH ATTENTION on their best customers, but an award-winning study of Stanford alumni by three marketing researchers suggests it may be more cost effective to increase spending on clients who only occasionally use their products or services.

The research is by Stanford marketing professors **James Lattin** and **V. "Seenu" Srinivasan**, and **Oded Netzer**, PHD '04, who is now an associate professor of marketing at Columbia Business School.

The threesome examined Stanford alumni and their involvement with the University over a 25-year period, placing each individual into one of three relationship states — dormant, occasional, or active — and observing whether actions such as attending reunions or volunteering made people more involved and more likely to donate to the University. Although companies usually don't have customer reunions, the dynamic model outlined in the paper can be applied to consumer marketing programs as well, Lattin said.

Lattin offered casino giant Harrah's and its Total Rewards program as an example. As people are rewarded, the company can see which incentives turn out to be the most profitable.

"With our model, we can track the likelihood that a reward will shift the relationship state," Lattin said. For example, would a free meal or free chips more likely to move someone from the dormant category to the occasional one? "The marketer can test the program on a sample of customers and then implement the successful programs with the entire customer base."

Srinivasan said the conclusions of the research are most important in industries that can offer a variety of potential enhancements to customers — such as airlines, hotels, rental cars, and telephone and cable television providers — rather than just raising or lowering prices.

"Marketers can choose among instruments," he said. "Which of the instruments helps make the relationship better?"

In the study of alumni, getting people to attend a reunion was particularly effective in increasing involvement. Attending a reunion increased the likelihood that an alumnus in the dormant category

would move into the occasional group from 10% to 68%. For those already in the occasional state, the likelihood of them shifting into the active group increased from 28% to 53%. The authors also found that reunion attendance strongly decreased the chance that people in the occasional state would fall to dormant.

The research and models were published in the March–April 2008 issue of *Marketing Science*; the work earned the John D. C. Little Award for best marketing paper of 2008 from the INFORMS Society for Marketing Science. The award recognizes authors for a "cumulative, long-term contribution" to the understanding and practice of marketing. Netzer, who did much of the research as groundwork for his doctoral thesis, spent hundreds of hours running computer models. He would have had an easier time if the study started today because computers and software are more advanced, and researchers have learned a lot about building these kinds of models, Lattin said.

"It's now going to be easier for companies to deploy models like this," he said, "provided they have the direct customer data." He added that businesses such as Procter & Gamble have a harder time tracking customer data because there is an intermediary: the store that sells the product. Those in the middle, such as Safeway, are offering more rewards programs that allow them to see which sorts of promotions work. Lattin is sure the manufacturers will want to find ways to take advantage of that sort of data.

The professor said marketers sometimes have a challenge persuading their company's upper management to let them spend money — especially when the economy is as weak as it is today — because the company's return on marketing investment is often unclear. Lattin said this model makes it possible to calculate return on investment at the customer level. A company can experiment with just a sampling of customers, then see whether those people give the company more business than those not in the sample.

"Marketers ask: 'How can I inculcate more loyalty in my customers?" Lattin said. "They need to find things that engage them."

- DAVE MURPHY

# Future Electricity Prices Analyzed for Cap-and-Trade Regulations

IN A STUDY OF HOW ELECTRICITY prices might be affected if coal-fired power plants are regulated for their CO<sub>2</sub> emissions, two Business School researchers focus on carbon capture and storage (CCS) technologies that power plants may adopt.

If Congress and the president enacted a cap-and-trade regulatory system for carbon dioxide emissions, coal-fired plants would confront a choice between emission-reducing technologies and the purchase of emission permits on the open market. While there are still open questions regarding the implementation of CCS technologies for plants on a commercial scale, Professor **Stefan Reichelstein** and doctoral student **Ozge Islegen** wanted to know how this technology, coupled with the existing market structures for electricity in the United States, would interact and impact the prices charged for electricity. "After several dire scenarios reported in the popular press, we became interested in measuring and quantifying exactly what the cost would be," said Reichelstein, who is the William R. Timken Professor of Accounting.

"Our analysis takes explicitly into account that in some jurisdictions the supply of electricity at the wholesale level (generation) is organized competitively, while in other jurisdictions a regulated monopolist (utility) provides both generation and distribution services," the researchers write. "We find that for both the competitive and

Continued on page 32

# Five Tenure-Track Professors Added to Faculty



New tenured faculty members, from left, Charles Lee, Steven Callander, and Charles Jones caught in between serious poses.

member, has a long resume that includes biblical studies and work as a KPMG accountant. He is fluent in Mandarin Chinese and also serves as cochair of the accounting department at Guanghua School of Management at Peking University. He is interested in the effect of human cognitive constraints on market participants as well as the dynamic process by which markets incorporate information into prices.

Two more newcomers are **John-Paul Ferguson**, assistant professor of organizational behavior, and **Ali Yurukoglu**, assistant professor of economics. Ferguson's recent research dissertation work at MIT was honored as the best graduate work in two categories by the American Sociological Association. He studies the effects of hostile environments on new organizations.

Yurukoglu, whose PHD is from New York University's Stern School of Business, applies statistics and game theory to the study of

regulatory policy and imperfect competition in the media and telecommunications industries.

### >Faculty News

WITH RECESSIONARY PRESSURES ON BUDGETS, the Business School hired fewer new faculty members than in recent years but was able to recruit three experienced professors and two who recently completed their doctorates. Their research and teaching address many contemporary issues.

**Charles I. Jones**, the STANCO 25 Professor of Economics, is a macroeconomist noted for his work on long-run economic growth. He has examined sources of growth in incomes over time and the reasons underlying the enormous differences in standards of living across countries.

**Charles M. C. Lee**, the Joseph McDonald Professor of Accounting, is an expert on the workings of markets. He has been an accountant, a visiting economist at the New York Stock Exchange, and a managing director at Barclays Global Investors, and has held tenured faculty positions in the business schools at Cornell and Michigan.

**Steven Callander**, associate professor of political economy, studies the behavior of voters and candidates in elections and the design of electoral systems. He focuses on understanding how uncertainty and learning affect political outcomes in a variety of institutional settings.

Jones has used his expertise in macroeconomic methods to study the economic causes behind the rise in health spending and longevity. He began his teaching career in Stanford's Department of Economics in 1993 and comes to the Business School from the faculty of the University of California at Berkeley.

Lee, who spent last year at the Business School as a visiting faculty

### Research Colors SEC Regulations

Research by **Alan D. Jagolinzer**, assistant professor of accounting at the Business School, may have played a role in prompting the U.S. Securities and Exchange Commission to rethink rules that permit scheduled trading by insiders.

Jagolinzer's paper, "SEC Rule 10b5-1 and Insiders' Strategic Trade," indicates that prearranged trades allowed under the so-called "safe harbor rule" may be less innocent than they appear. It was published in the February 2009 issue of *Management Science*, but his preliminary work was completed earlier, and the researcher briefed the SEC on his findings in December 2006, four months before a speech about the rule was delivered by Linda Chatman Thomsen, then director of enforcement for the SEC. (A report on Jagolinzer's work was published in *Stanford Business* magazine's November 2007 issue.)

Rule 10b5-1, adopted in 2000, allows executives to make prearranged trades at specified prices or dates in the future. The idea, explained Thomsen, was to give executives a safe harbor to proceed with these prearranged trades and "give executives regular opportunities to liquidate their stock holdings — to pay their kids' college tuition, for example — without risk of inadvertently facing an insider trading inquiry."

But citing Jagolinzer's work she said: "The academic data show that

executives who trade within a 10b5-1 plan outperform their peers who trade outside of such a plan ...; it ought to be the case that plan participants should be no more successful on average than those who trade outside a plan.

"The difference seems to be that executives with plans sell more frequently and more strategically ahead of announcements of bad news. This raises the possibility that plans are being abused in various ways to facilitate trading based on inside information. We're looking at this - hard," Thomsen said.

The harder look may already be changing the behavior of insiders. Last year, usage of these plans declined, possibly because of SEC scrutiny, according to a Reuters news agency report, which attributed the information to Equilar, a research firm. Stock market declines may also have prompted participants to suspend activity as the year drew to a close, Equilar said.

What's more, the SEC recently released new interpretive guidance that outlines how insiders are expected to comply with Rule 10b5-1 trading plans. A spokesman for the SEC said the commission will not comment further on its use of Jagolinzer's research.

### Henry Named to Head Stern School

Peter Blair Henry, the GSB's Konosuke Matsushita Professor of International Economics, has been named dean of the Stern School of Business at New York University beginning Jan. 15, 2010. An economist whose scholarship focuses on the impact of economic reform on emerging economies, he has been on the Business School faculty since 1997 and is currently president of the National Economic Association. He also was a leader of the Obama transition team's review of the International Monetary Fund, World Bank, and other international lending agencies, and has been an economic advisor to governments from the Caribbean to Africa.

### Chair to Honor Professor Van Horne

School alumni and friends of Professor James C. Van Horne have established an endowed chair in his honor.

Van Horne, who began teaching at the Business School in 1965, has served as a mentor and role model to many. When students honored him with a second distinguished teaching award in 1997, he estimated that he had already had about 7,000 students pass through his door. Two alumni, at their class reunion in 2003, decided it was time to start the fund to endow the chair in his honor. Since then, Van Horne's colleagues, friends, and many other former students have contributed.

Now the A.P. Giannini Professor of Banking and Finance, Emeritus, Van Horne is best known to scholars for his work on the theory and behavior of interest rates, corporate finance, capital budgeting decisions, and the valuation of market instruments. He is the author of more than 60 articles and 5 books, 3 of which - Financial Management Policy, Fundamentals of Financial Management, and Financial Market Rates and Flows — are in wide use as texts.

He may be better known to former students for his classroom demeanor and accessibility beyond graduation. His legendary coldcalling technique prompted some alumni to turn the tables on him for a May 2005 Stanford Business story in which they asked him their toughest finance questions.

### > Faculty Publications

### **ACCOUNTING**

Testing International Asset Pricing Models Using Implied Costs of Capital Charles Lee, David Ng,

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Venky Nagar, Madhav V. Rajan, and Richard Saouma

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### **CORPORATE GOVERNANCE**

The "Wall Street Walk" and Shareholder Activism: Exit as a Form of Voice

Anat R. Admati and Paul Pfleiderer

Review of Financial Studies (Vol. 22, No. 7), JULY 2009

### **ECONOMICS**

The Analysis of Firms and Employees: Quantitative and Qualitative Approaches (National Bureau of Economic Research Conference Report)

Edited by Stefan Bender, Julia Lane. Kathryn L. Shaw. Fredrik Andersson. and Till von Wachter

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Accounting and Control, Entrepreneurship and Innovation: Venturing into New Research Opportunities

### Antonio Davila, George Foster, and Daniel Oyon

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Inexperienced Investors and Bubbles Robin Greenwood and Stefan Nagel Journal of Financial Economics (Vol. 93, No. 2), AUGUST 2009

Heterogeneous Learning and the Targeting of Marketing Communication for New Products Sridhar Narayanan and Puneet Manchanda

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and Sridhar Seshadri

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Nathanael J. Fast, Chip Heath, and George Wu Psychological Science (Vol. 20, No. 7)

Taking from Those That Have More and Giving to Those that Have Less: How Inequity Frames Affect Corrections for Inequity Brian S. Lowery, Rosalind M. Chow, and Jennifer Randall Crosby Journal of Experimental Social Psychology (Vol. 45, No. 2), MARCH 2009

Renaissance and Renewal in Management Studies: Relevance Regained Jeffrey Pfeffer

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Shareholders First? Not So Fast ... Jeffrey Pfeffer

Harvard Business Review (Vol. 87. No. 7-8), JULY-AUGUST 2009

The Rationalization of Charity: The Influences of Professionalism in the Nonprofit Sector

Hokyu Hwang and Walter W. Powell Administrative Science Ouarterly (Vol. 54, No. 2), JUNE 2009

How to Be a Good Boss in a Bad Economy Robert I. Sutton

Harvard Business Review (Vol. 87, No. 6), JUNE 2009

### **POLITICAL ECONOMY**

The Wisdom of the Minority Steven Callander and Johannes Hörner Journal of Economic Theory (Vol. 144, No. 4), JULY 2009

Strategy-Proof, Efficient, and Nonbossy Quota Allocations Social Choice & Welfare

(Vol. 33, No. 3), SEPTEMBER 2009

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and Randall K. Thomas Public Opinion Quarterly (Vol. 73, No. 2), SUMMER 2009

**Endorsing Obama Licenses** Favoring Whites Daniel A. Effron, Jessica S. Cameron, and Benoît Monin

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Investigations in Spontaneous Discounting

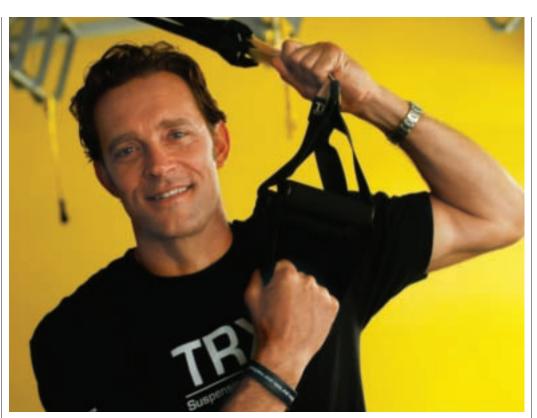
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# PHOTO BY LACY ATKINS/SAN FRANCISCO CHRONICLE

# Wsmakers

WHO'S IN THE NEWS: A ROUNDUP OF MEDIA MENTIONS



### Who's Laughing Now?

"This thing has become so much more than I ever envisioned," Randy Hetrick, MBA '03, told the San Francisco Chronicle. The "thing" is the TRX Suspension Trainer, an invention born of necessity 10 years ago when Hetrick was a Navy SEALs squadron commander who needed a portable training device to help keep his team in top shape wherever it was deployed.

Business School Dean Garth Saloner couldn't envision it either. Back when he was teaching a course in new ventures and Hetrick was his student, Saloner saw Hetrick's prototype bodyweight-suspension belt. "I thought he was nuts, to be completely honest," Saloner told the newspaper, laughing. "It looked like an old belt with stirrups."

So who's laughing now? Hetrick's San Francisco-based comRandy Hetrick's simple tool for keeping Navy SEALs fit while on the go has brought him \$20 million in sales.

pany, Fitness Anywhere, has sold \$20 million worth of the suspension trainers over the past four years, mainly to the military but also to professional trainers, athletes, and others who are looking for a fitness fix.

### **Hedge Fund Honoree**

A global organization known as 100 Women in Hedge Funds now 10,000 members strong, named Katie Hall, MBA '84, U.S. recipient of its 2009 Industry Leadership Award, reported the Hedge Fund Journal. Every year the organization selects two women, one in Europe and one in the United States, who represent the industry's standards of excellence. Hall is the CEO and

CIO of Hall Capital Partners. which she founded as Laurel Management Company in 1994. The firm manages more than \$17 billion in assets.

### Klane Sees Challenges for South Korean Banks

After enduring its first quarterly loss since 2003, Korea Exchange Bank returned to profit in the second quarter of 2009 under the guidance of Larry Klane, MBA '87, who became president and CEO of South Korea's sixth largest lender in April. Although he expected a solid third quarter for the bank, Korea's economic environment is "not out of the woods yet," Klane told Bloomberg TV in September. Complicating matters for KEB and other banks in the country, Korea's Financial Supervisory Service is requiring lenders to ensure that nonperforming loans make up less than

1% of outstanding credit by year's end compared to the 1.5% average at the end of June. Klane called the new limit "a very ambitious target ... one we and other banks will certainly do our best to achieve." However, he added, "All of that creates, I think, a lot of uncertainty in the credit picture."

### Looking for Green-Eyed, **Left-Handed Outfielders**

There's more to running a baseball team than just reading scouting reports. The front office needs medical data and statistical analysis on prospective players and contract and payroll figures. "It's all about looking at all the information you can find and putting it together in a way that makes sense," said St. Louis Cardinals' assistant general manager John Abbamondi, MBA '04. "Fifty years ago, if you wanted to know about a player, you pulled a written file." But now, "I can go to one system and ask for all the left-handed relief pitchers with scouting grades above a certain level and statistical projections at or above a certain number," he told Technology Review. Which is not to say baseball is all stats and spreadsheets, especially to this longtime fan of the game. "I'm fortunate to work in a game where I can still touch on the memories from my childhood. and sometimes that comes home in a deep way," Abbamondi said. "I still get a real sense of wonder getting to watch players like [Albert] Pujols take batting practice every day, and I hope that never wears off."

### When Harvard **Trounced Yale**

Before there was an annual Big Game between Stanford and Cal. there was The Game between Harvard and Yale. Some call the

1968 edition of the Ivy League

football match, in which Harvard famously came from behind to tie Yale, the biggest game ever. "We weren't supposed to win," Harvard Hall of Fame punter Gary Singleterry, MBA '74, told mycentraljersey.com. "Everybody thought Yale was better." Harvard's 16 points in the final 42 seconds, as well as all of Singleterry's six punts during the game, were captured in the 2008 documentary Harvard Beats Yale 29-29.

## Making the World Safe for the Internet

Rod Beckstrom. MBA '87. resigned last March as director of Homeland Security's National Cyber Security Center, but shortly after a series of Fourth of July attacks on government agency computers in the United States and South Korea, he was invited to lend his expertise to PBS's NewsHour. The simple cyber attacks, of a type known as a distributed denial of service. were at first attributed to North Korea but may have been the work of a single hacker, Beckstrom said. "You know, this is not a sophisticated attack here. In fact, this is like a scud missile

attack. This is old technology that's been around since 2004."

Beckstrom is now president of ICANN, the organization that oversees internet domain names, a post a friend called "even more impossible" than his previous job.

### No Pregnant Pause During Recession

"Even in tough times, women get pregnant and their pre-pregnancy clothes don't fit," said Destination Maternity CEO Ed Krell, MBA '88. Just the same, the maternity apparel industry isn't recession-proof. Krell helped his company survive the worst of the recent downturn by paying down some \$50 million in debt over two and a half years, starting when the economy was soaring. It was an auspicious move that Krell credits as much to good luck as good management. "There have been layoffs at headquarters, store closings, and store renamings as the company's apparel lines have been condensed to two," the Philadelphia Inquirer reported. Still, amid

Ed Krell, CEO of Destination Maternity, opened stores in India during the recession.

all of this, Krell managed to open stores in India, plan more in the Middle East, and launch a special design collection in collaboration with celebrity Nicole Richie, who recently gave birth to her second child.

## Optimistic Numbers from TARP Director

Even as the Troubled Asset Relief Program drew complaints in Congress, the man nominated to run it, **Herbert Allison**, MBA '71, was easily confirmed by the Senate in June. By September, *Newsweek* reported that "the final cost of TARP will be a fraction of the original \$700 billion," and Allison told the magazine that TARP's centerpiece, the \$200 billion Capital Purchase Program, is likely to make money.

Allison's Treasury post is not his first government role. Before becoming assistant secretary for financial stability, Allison, a former chairman and CEO of TIAA-CREF, was called on to shepherd Fannie Mae as it was placed under government conservatorship.

### New Tech Reverts to Old-Style Financing

Khosla Ventures, founded in 2004 by Vinod Khosla, MBA '80. announced in September that it had raised \$1.1 billion in two funds and will start investing the smaller \$275 million fund in very-early-stage green startups. The goal of the fund, which is "geared toward science experiments, ... is to take risks that nobody else will take," Khosla told the New York Times. "This is the 1980s style of venture capital real technical risk with small amounts of money and small teams," he said, adding, "Cleantech companies taking large amounts of money — that's project finance, not technical risk. That's a differentiation most people have lost."

# Silverman Skypes on Oprah Show

Television personality Oprah Winfrey had been using Skype video for more than a year on her Chicago-based *Oprah Show* when she showed just how far she and the technology could go. On a special live edition called "Where the Skype Are You?"



Josh Silverman, president of Skype, "skyped" to a wine tasting with Oprah Winfrey.

Oprah interviewed folks way down south at the Palmer research station in Antarctica. way down deep on the submarine USS Louisville, and way up high on a Virgin America airliner. Skype President Josh Silverman, MBA '97, joined the show from his London office to demonstrate how viewers could set up the service for themselves. Later in the show, Silverman, Oprah, and a couple of the airborne passengers Skyped over to California's Bonny Doon Vineyard for a wine tasting.

### Plunge to Pep Up

If you've ever wondered why anyone would swim the frigid waters of San Francisco Bay, meet Joe Davis, MBA '88, who puts in an hour each morning up to seven days a week, often from a favorite beach near the Golden Gate Bridge. The president and CEO of Coremetrics considers his morning dip a requirement of his job, "to take care of my brain and my body so that when I come to work I'm 100%." Davis was interviewed at water's edge by Forbes Video Network's "Personal Best."

TOP PHOTO BY HARRY BORDEN; BOTTOM PHOTO BY LAWRENCE KESTERSON / PHILADELPHIA INQUIRER

the regulated monopoly scenarios, an emission price in the range of \$25 to \$30 per ton of CO<sub>2</sub> would make it advantageous for coal-fired plants to adopt CCS capabilities rather than buy emission permits.

"The resulting increases in the retail price of electricity are projected to be near 25%," they concluded. However, "in contrast to the



competitive power supply scenario, these price increases materialize only gradually, in fact almost linearly, over 30 years for the scenario of a regulated utility. This delay in price increases reflects that for regulated firms prices are principally based on historical cost rather than current cost."

The complete paper is available online at gsbapps.stanford.edu/ researchpapers. Enter report number 2033 or the report title, which is "CO2 Regulations and Electricity Prices: Cost Estimates from Coal-Fired Power Plants."

### Social Ties Strengthen Illusion of Consensus

PEOPLE WHO ARE CLOSELY CONNECTED to others through social networks tend to overestimate how much their network peers agree with them, according to research by Business School Professor Frank Flynn and doctoral student Scott Wiltermuth.

Questioned about how they would deal with hypothetical ethical dilemmas, research subjects were asked how much they believed their views were in line with their peers'. The more people were centrally connected, the more they overestimated the degree to which their colleagues' judgments were in agreement with their own. This was true even when the participants held a minority opinion on an issue but mistakenly believed they were in the majority. In essence, social ties strengthened the illusion of consensus even when none existed.

"Having more social ties increases a focal individual's estimates of agreement with others on ethical issues beyond what is warranted by any actual increases in agreement," they say in a web summary of their work.

The study is in line with others that have shown that when people interact, they tend to affirm the things they have in common rather than discuss areas where they disagree. The phenomenon is known in psychology as the "false consensus bias," and this particular study, under review at the journal Administrative Science Quarterly, suggests the bias is "exacerbated, not mitigated, by having a larger social network," say Flynn and Wiltermuth.

views on 215,000 Ning networks per month.

This last number, the active networks, is running at about 15 percent of all Ning networks created, which leads to a rather obvious question about the site's conversion rate.

"We don't look at it as whether they are active or inactive, actually," Bianchini explained. "What we ask is, 'Are we driving experimentation, and is Ning easy to use?""

She said the most critical metric is the escalating rate of new networks created, which indicates Ning is an engine driving experimentation in social media.

As a point of comparison, it has been reported that the vast majority of Twitter accounts lapse into inactivity very quickly, with only a small majority, perhaps 10 percent, generating 90 percent of all activity on the microblogging service. Despite this low conversion rate, few expect Twitter to be going away any time soon.

One notable aspect of Ning's growth is the proliferation of networks being set up by users of the other major social media sites. As of mid-August 2009, there were more than 360 Ning networks

### "WHAT WE ASK IS 'ARE WE DRIVING EXPERIMEN-TATION, AND IS NING EASY TO USE?"

devoted to Twitter users and over 1,120 networks for Facebook users.

"One part of all this that I find incredibly exciting from a market perspective is that technology and social experiences and social media can now work together better than with any previous class of software," Bianchini said. "Everyone can, in fact, now get along."

She added: "That is to me a very different dynamic from what the web was even five years ago. It's the most exciting thing in the online world today. You can actually give people the ability to extend their Facebook experience and all of their other interests and passions across public or private networks on Ning."

A small number of Ning networks (around 12,000) pay for "premium services," which allow those groups to remove advertising and Ning promotional links and use their own domain name and the like. This proves to be an attractive option for some business-to-business networks, among other user groups.

While Bianchini wouldn't discuss the actual dollars generated from this part of the business, she did say that the subscription revenue was of secondary importance to advertising, according to Ning's business model.

To date, the company has been using Google AdSense to insert advertising across its networks, but she indicated that other partnerships might be in the works: "Stay tuned on that."

One key aspect of the future success of Ning's ad model will be how the company finds ways to exploit its database of the "interests and passions" its users are pursuing on their networks. Users tag all of their content, and then, Bianchini says, "we do a fair amount of work at the network level" to validate and organize all of that information.

The resulting database of what people actually care about in "real time" (that is, when they are sharing it with colleagues and friends) is potentially a valuable tool for attracting advertisers to Ning.

For advertisers, such data indicates Ning might deliver more customer leads than traditional media. Would it be fair to describe this as the essence of Ning's business model going forward?

"I'd say you've got that exactly right." •

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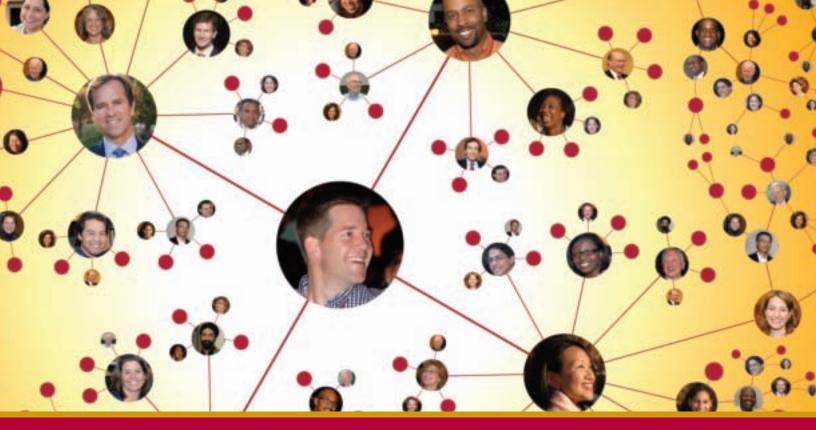
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