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STANFORD BUSINESS

A Magazine for Alumni/ae of the Stanford University Graduate School of Business Spring 2011 • Volume 79, Number 2



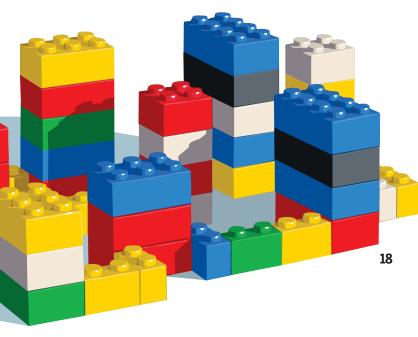
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ON THE COVER: Photo by Bill Varie/GettyOne.com

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Cross-Disciplinary Innovation



IN THIS ISSUE, we present a bit of history that explains how the Graduate School of Business has changed lives, organizations, and the world by leading theory development and research on organizations. Beginning in the 1970s, Stanford attracted social science graduate students interested in organizational phenomena who were grounded in specific academic disciplines but who also crossed intellectual traditions and schools, inventing what some call the quasi-field of organization studies.

It is quasi because its practitioners use ideas and techniques from fields as varied as economics, psychology, sociology, and political science to

study how organizations are built, reshaped, and destroyed. They can tell you about the prerequisites of small group cooperation or the unintended consequences of various management employment practices. They were innovative thinkers and researchers partly because of an unusual environment at Stanford at the time, one that encouraged them to engage each other's foreign ideas. An expectation existed that they "would not be afraid to participate in settings where they had less expertise than others in the room," recalls Alison Davis-Blake, the newly appointed dean of the Ross School of Business at the University of Michigan. She was one of those participating GSB students in 1985-86.

After earning Stanford doctorates, these students went on to teach about organizations at North American, European, and Asian universities. Three closer-to-home examples are Glenn Carroll, who was actually a graduate of the sociology department but is now on the GSB faculty, and PHD graduates Kathleen Eisenhardt and Debra Meyerson, who are now on the faculties, respectively, of the Stanford schools of engineering and education.

One way to read this history is like any case study in an organizational behavior class. The scholars have analyzed their organization in a 2010 book titled Stanford's Organization Theory Renaissance, 1970-2000. Journalist Jocelyn Wiener has interviewed student and faculty participants to give you an overview. I think you will find it an enlightening peek inside a leading academic research culture.

Nothler O Toole EDITOR

Letter to the editor

The article titled "John Roberts: Expert on Industrial Organization" in Stanford Business, Winter 2010-11, page 29, implies there is still virtue in centralized management engaging in limit pricing. I disagree.

In limit pricing, management of a monopoly sets prices on output lower than it could get in order to avoid disclosing its actual costs to potential competitors. In the emerging world, disclosing one's costs to a competitor is only one factor — a minor one — among many considerations shaping pricing policy.

Electronics, including computer technology and robots, are displacing manual labor and paper-trail office procedures. New products are introduced at a rapid pace. Globalization presents unprecedented opportunities for

expansion but also causes problems for businesses in fitting into unique cultural environments. Interest groups such as labor unions, suppliers, customers, and community activists are more knowledgeable and articulate about business. Decision makers may even find it necessary to engage competitors in joint ventures, and governmental oversight is more prevalent. Managers also must consider risks from weather, terrorists, popular uprisings, natural disasters, environmental issues, and unsettled economic conditions.

Price setting, like other key policies, should be based on the impact these forces exert. It is an art, not a science, and therefore the skill of the executive (as well as unforeseen events) -ROBERT MOGIS, MBA'52

Robert Mogis is an auditor specialist for the State of Michigan.

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A PUBLICATION FOR ALUMNI/AE OF THE STANFORD GRADUATE SCHOOL OF BUSINESS

Spring 2011, Volume 79, Number 2

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STANFORD BUSINESS magazine (ISSN 1094-5423) is published three times annually (Spring, Autumn, Winter) by the Stanford Graduate School of Busines © 2011 by the Board of Trustees of Leland Stanford Junior University, All rights reserved. Printed in the United States. Postage Paid at Palo Alto, Calif., and at additional mailing offices.

CONTACTS Stanford Business magazine. Graduate School of Business, Knight Management Center, Stanford University, Stanford, CA 94305-7298 $EMAIL: gsb_newsline@gsb.stanford.edu$

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POSTMASTER Send address changes to: Stanford Business: Marketing and Communications; Graduate School of Business; Stanford University; Stanford, CA 94305-7298 PHONE: 650 723 3157



STANFORD GRADUATE SCHOOL OF BUSINESS WE PRINT GREEN • WE SAVE TREES

Our New Home: Knight Center Comes to Life

AS YOU READ THIS, the new Knight Management Center will have opened with pomp and circumstance April 29, 2011. While this will have been an extraordinary occasion, I also want to share with you the incredible momentum that has been building all spring as students, faculty, and staff move in to the GSB's terrific new complex.

On a clear, brisk morning in January, I welcomed students as they began streaming in for their historic first day of classes. While standing in the back of a sunlit classroom, I watched venture capitalist Peter Wendell welcome students for the 20th year to the venture capital class he teaches with entrepreneur Andy Rachleff, MBA '84, and Google chairman Eric Schmidt. Their guest that morning was venture capitalist Vinod Khosla, MBA '80. Noting that the class was taking place in the Class of '68 Building, Peter observed that he hoped his students would be as successful and generous as their predecessors.

In 1966, the MBA Class of 1968 was one of the first to enjoy the then new GSB South building. Over the next 40-plus years in that building, the GSB emerged as a preeminent business school. Since then, the GSB has led the way in creating management education based on rigorous research and conceptual frameworks that are delivered in a collaborative environment. Stanford has constantly innovated and pushed the boundaries of

management education, and in that spirit four years ago created a new curriculum personalized to each student. As we transition to Knight, we bring with us that legacy, the traditions developed there, and the intimacy and community engagement that are hallmarks of the GSB experience. As we look forward, we also bring with us the drive and the commitment to invent anew.

A few weeks after classes started, I had the privilege of touring the site with Phil Knight, MBA '62. In addition to showing him the highlights of the eight new buildings, we walked in on a surprised and delighted first-year microeconomics class taught by David Kreps. The students burst into spontaneous applause in appreciation for an alumnus who has done so much for them and for generations of future students. We walked down Knight Way and peered into a room where Dale Miller was teaching a PHD seminar to a group of future educators before making our way up to a balcony on the fourth floor of the Bass Center, where we gazed out over our new Town Square, Arbuckle



Dean Garth Saloner shares coffee with first-year MBA student Andrew Wasserman, left, in January on the first day classes were held in the Knight Management Center.

Dining Pavilion, Community Court, the 600-seat Zambrano Hall housing Cemex Auditorium, past Hoover Tower, over the red-tile roofs of Stanford University, and into the Santa Cruz foothills.

Even in the early days of our move, we can see our dreams for the facility being realized. It has the ability to fuel the GSB's future both within and well beyond its walls. It is open and inclusive. It is a physically transparent place where students and faculty work collaboratively and can be seen learning. It brings together the GSB community with students and faculty from across the university over coffee in the Town Square, sitting on the lawn of the Community Court, or rolling up their sleeves in a breakout room as they invent the future together. It is a place where, in keeping with our mission statement, we will continue to create ideas that deepen and advance our understanding of management and with those ideas develop innovative, principled, and insightful leaders who change the world. As the building cornerstone reads, it is a place "dedicated to the things that haven't happened yet and to the people who will dream them up."

We invite you to come and experience the vibrancy of the Knight Management Center for yourself. If you can't visit in the near term, you can follow our progress and reconnect at www.gsb.stanford.edu/ knightcenter. We look forward to hearing what you think as we bring the Knight Management Center to life. •



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PHOTO BY ROBERT SNOW

Noteworthy

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



Boston Red Sox scout Hal Morris, MBA '05, evaluates players during spring practice in Orlando, Fla.

Baseball Scout Goes Beyond the Numbers

hen he is evaluating talent as a scout for the Boston Red Sox, Hal Morris often recalls lessons learned at the Stanford Graduate School of Business.

"I think the course that probably helped most was *Organizational Behavior*," he says. "We learned about cognitive biases. In scouting, many things can influence your opinion of a player. You have to be aware and make sure you make an objective analysis."

Morris, 45, is a former major leaguer who batted .304 lifetime and drove in the winning run for the Cincinnati Reds in the final game of the 1990 World Series. After his 14-year playing career he came to Stanford and earned

an MBA degree in 2005. He took a range of courses, including sports marketing, and learned quantitative analysis as well as other skills he says prepared him for a business career.

After graduation, he worked in real estate investment. Then, missing baseball, he decided to return but not in a uniform. "I spoke with some guys I respect in the game. They suggested scouting. They thought I would enjoy breaking down the game to a granular level."

Morris worked two years scouting amateur players for the Pittsburgh Pirates before the Red Sox hired him in fall 2010 to evaluate players already in the minor or major leagues. The Red Sox, winners of two World Series in recent years, are known as a sophisticated organization that relies heavily on statistics.

"Baseball is a game driven by numbers," Morris says. "My focus is qualitative analysis, so I don't delve into quantitative analysis per se, but my Stanford experience makes the data produced by the quantitative guys very approachable."

Morris can see himself moving into the business side of baseball eventually. "Many of the really top-flight, front office personnel came from a scouting background. I'm trying to hone my skills. We'll see where that takes me."

-ROBERT PREER

Workable Forms Sought for Mideast Democracy

In the midst of tumult in the Arab world, democracy expert Larry Diamond cautioned that democratic change in the region should not be taken for granted. "Getting the timing right, getting the politics right, is fundamentally important, even essential, to having a successful democratic transition," Diamond said in a March talk sponsored by the business school's student-led Government and Politics Club.

Diamond, director of the Center on Democracy, Development, and the Rule of Law in Stanford's Freeman Spogli Institute for International Studies. identified several preconditions that increase the likelihood of successful democratic change. "It helps if a country is reasonably economically developed and literate" and if there is "a business or entrepreneurial class," he said. In addition, some exposure to democratic culture and ideas, particularly pluralism and tolerance, are important. Experience with independent media also helps.

Democracy is more likely if there is a negotiated transition involving soft-liners in an authoritarian regime and flexible elements of the political opposition. The form of government chosen is immensely important. The Arab world has witnessed a growing call for getting rid of "presidentialism" and for establishing "parliamentary rule with strong constraints on executive power," he said.

Another crucial step is establishing a representative electoral system. Diamond voiced skepticism about majoritarian parliamentary rule that allows one party to dominate even if it wins only a plurality, rather than a majority, of votes. Newly democratizing Arab countries should

take adequate time to set up fair electoral systems with cleanedup voter registration and independent electoral oversight, he

"I am much more optimistic about Tunisia than Egypt," Diamond said, noting that Tunisia, which overthrew its longtime dictatorship in January, was "less polarized and radicalized than many other Arab nations."

He said he was "deeply suspicious" about the military council that took over as the transitional government in Egypt. "It's not like the military was allied with the Mubarak regime. The military was the previous Mubarak regime."

Technology has given a younger generation of Arabs access to "ideas, tools, methods, and democratic values and culture," Diamond said. "The net contribution has been significantly positive." Diamond's democracy center at Stanford offers a Program on Liberation Technology, which examines the use of technology in improving governance and economic development.

Skype Founder Seeks Ventures Outside U.S.

Niklas Zennström created the free internet voice-communications firm Skype in Luxembourg in 2003. He now runs his own

venture capital firm, Atomico, which searches for the next billion-dollar technology blockbuster in Europe and emerging countries, far from technology's traditional stronghold.

Silicon Valley isn't the only area where technology companies can flourish. Zennström told business students at a talk sponsored by the Center for Entrepreneurial Studies and the student Venture Capital Club. Populations and internet use are growing fastest outside of the United States, he said.

"Skype was a very successful company that came out of Europe, and there have been several others." But Zennström saw a problem.

"In Europe, none of the venture capitalists had entrepreneurial backgrounds. They came from banking or management consulting." It seemed to take forever to get funding when "everyone was still suffering from the dot-com crash." he recalled, and Skype finally found its first funding in Silicon Valley.

He formed London-based Atomico, which to date has made more than 40 investments on 3 continents.

Zennström urged the students to "change the status quo. When Google started, it was not fashionable to be in search. The trick here is to try to figure out the thing that is unexpected."



Skype founder Niklas Zennström, shown with GSB lecturer Peter Wendell, told students to look beyond Silicon Valley for promising investments in technology companies.

Strategies for Taming Stubborn Federal Debt

"This is not your grandfather's economy," Joseph Minarik of the Committee for Economic Development told MBA students during a panel discussion in January. "This is not an economy that could grow out of an enormous debt [as] at the end of World War II. This is an economy that will have to struggle to turn the situation around."

Minarik of the public policy organization was one of seven economic experts on a panel that discussed how the country can cut an estimated \$14 trillion federal debt, roughly a year's economic output. This time, U.S. products are facing stiff competition from abroad and a lingering global recession. Also, many highly trained baby boomers are taking professional talents with them into retirement.

Some argued that spending policies designed to reinvigorate the U.S. economy had added to the nation's economic woes. When the economy improves and current low interest rates increase, so will the government's obligations on that debt.

But the panel also proposed solutions. Boosting productivity especially within productivity

Intuit Chief Information Officer Sees Gold in Data Mining

hink fast. How many chief information officers can you name? If you're not steeped in the lore of information technology, the answer is probably none. There's a reason for this: Historically, the role of CIO was that of the person who made sure the digital plumbing of a major business was up to snuff. An important role, to be sure, but one quite separate from the higher profile world of business strategy.

That division is now blurring, and few CIOs exemplify the changing reality more than Ginny Lee, MBA'93, chief information officer of Intuit, the financial software giant. She's something of an anomaly in the world of information technology: a female in a



Ginny Lee

profession that's about 85% male, and a former investment banker in a job that usually prizes technical chops above all.

But what really sets Lee apart is her mission at Intuit. With 40 million customers using its tax, accounting, and payroll products, Intuit generates immense

amounts of data. A traditional CIO would view that as an asset to be managed and guarded. Lee says her job is to monetize it: "Help the company create new business strategies and new innovative connected services that will drive additional revenue growth."

Data from Intuit Online Payroll, for example, is used to produce the company's "small business employment index," while data from QuickBooks Online is aggregated, made anonymous, and melded into a feature that lets small businesses compare their critical metrics, such as margins and days payable, to competitors.

Lee has learned a lot about bits and bytes - plumbing is, of course, critical — but says her

nontechnical background has made her a stronger IT executive. "My investment banking experience provided me financial awareness, while my marketing role at Pepsi taught me how to commercialize products. And now, my current role as CIO is providing me with a technology lens, which is critical if I want to run a high-tech business."

She has something else going for her as well: determination. "I have never allowed my gender, race, or even height [Lee is 5 feet 6 inches tall to affect who I am. I played high school, collegiate, and national volleyball ... and height mattered. I proved that it was overrated."

-BILL SNYDER

How Ford Made U-Turn in Stalled Economy

Ford Motor Co. CEO Alan Mulally asked business school students to put themselves in the driver's seat of the giant automaker.

When Mulally took over the company in 2006, car sales were down, and Ford was about to lose \$17 billion, he said. Relations with labor unions were strained. There was scant dialogue among different operating units on ways to improve business. "So, that's the situation," he said. "What would you do?"

Audience members shouted answers ranging from shuttering dealerships to investing more money in R&D. One student's suggestion to simply "create trouble for your rivals" got a big laugh and a wry reply from Mulally: "That was not part of the plan, although that's what happened. We're certainly a real pain right now."



Thrown Disc Good for Payne

MIKE PAYNE, MBA '03, throws a forehand during the World Ultimate Club Championships last year. His team, Revolver, won two major titles in 2010. It beat Seattle's Sockeye 15-12 on July 10 in Prague to win the world championship. On October 31, it beat Boston's Ironside 15-10 in Sarasota, Fla., for the USA Ultimate National Championship. Payne, a biotechnology executive, played on the Stanford men's ultimate Frisbee team as an undergraduate and coached that team to a national championship in 2002 while earning his MBA.

In his View from the Top speech, Mulally outlined how Ford overcame its dark days to become a profitable enterprise.

The company's transformation didn't come easily. On his first day on the job, "I drive in, and there is not one Ford vehicle in the garage," he said. "There are all these Aston Martins and Jaguars. I remember thinking to myself, 'I wonder what all the people in this building are working on. I don't think it's Ford."

Mulally went on to refocus attention on core Ford products, close plants, cut personnel, sell some brands, including Jaguar and Land Rover, and discontinue the Mercury brand. The company used money saved to design new products, including the popular Ford Fusion sedan.

Ford was the only major U.S. automaker to avoid bankruptcy in 2009, and has paid back more than half of the \$23.5 billion it borrowed to fund its turnaround. In 2010, the company earned \$6.6 billion, its largest profit in more than 10 years, and Ford became the nation's top-selling automobile brand for the first time since 2003.

Auto Czar Defends GM-Chrysler Bailout

Believers in free-market capitalism were appalled when the U.S. government spent \$82 billion to bail out General Motors and Chrysler. But the money was well spent, saving an important U.S. industry and averting a national economic catastrophe, the Obama administration's former auto czar told a business school audience.

Steven Rattner, the Wall Street financier who led the 2009 emergency rescue, said the Obama administration had little choice but to save GM and Chrysler from collapse. "It would have been an economic calamity. You would have had a couple of million people out of work. We just felt it was an unacceptable risk to take."

Cofounder of the private equity firm the Quadrangle Group, Rattner was appointed to shepherd the auto task force when the U.S. economy was mired in a recession and financial crisis.

The rescue team put GM and Chrysler into bankruptcy and overhauled operations and finances with money from the Troubled Asset Relief Program, or TARP, which Congress had approved to rescue the financial sector. "Team Auto" slashed the carmakers' costs and debt

Lean, Green Vending Machines Deliver Healthier Food

Vending machine offerings tend to be limited for the health conscious. Reading the nutrition facts on items before purchasing is nearly impossible. The machines and inventory marketed by **Andy Mackensen**, MBA '06, and his business partner are designed to address those concerns while also joining the fight against childhood obesity.

"One thing that didn't sit well with me when I started working in the hot food vending industry was some of the junk food served," said Mackensen, whose awareness for healthy eating was elevated when he joined the U.S. Naval Reserve Officers Training Corps as an undergraduate. After earning his MBA, he worked in hot food vending and later met Sean Kelly, who specialized in health-oriented vending operations. In 2009 the two launched h.u.m.a.n. (helping unite man and nutrition), a company with vending machines that capitalized on new technology and growing interest in healthy eating.

Their machines are 30-50% more energy efficient than older models with inventory that has been approved by a panel of



Andy Mackensen

doctors and dieticians, Mackensen said. The machines, mostly located in schools, gyms, hospitals, and office buildings, have LCD screens that display nutrition facts and health tips, as well as paid advertisements to generate additional income. A cellular connection allows for credit card transactions, and WiFi access permits employees to remotely monitor machine inventories, which vary by location. Mackensen said the company donates 10% of profits to charities working to reduce childhood obesity.

"Right now there are 7 million vending machines in the U.S.," Mackensen said. "The plan is for 10,000 of those machines to be ours by 2016."

-ARTHUR PATTERSON

HOTO BY ANNE KNUDSEN

by shutting plants and laying off workers, eliminating dealers, shedding brands, and negotiating concessions from creditors and the United Auto Workers

Dumping GM's CEO, the team whisked the big automaker through bankruptcy in 39 days. Chrysler emerged from bankruptcy after 42 days and agreed to be run by the CEO of Italian carmaker Fiat.

"We really did not want to set a precedent for government intervening in the private sector. We hated that idea," he said. The Obama administration viewed government — and taxpayers — as "investors of last resort," he added. "This was not the long hand of government. This was not creeping socialism, not Obama Motors."

Water, Workforce Make Africa Good Investment

Africa is easier to do business in than either China or India, according to Thomas Barry, founder of private equity firm Zephyr Management, one of the entrepreneurs and financiers to speak at a student-organized business school conference on investment in Africa.

The continent supersedes the two countries in another factor critical for business success: renewable internal freshwater resources. Moreover, by 2040, Africa will have a larger workforce than China or India, totaling more than 1.1 billion people.

One of the greatest challenges to doing business in Africa is the lack of middle-management talent, said Mark Neuman, counselor for international trade and global strategies for Limited Brands. "If your business plan includes a strategy to recruit, train, and maintain good personnel, you'll succeed." And one of the best ways to create a sustainable business in Africa is to focus on efforts that allow women to enter the middle class, he said.

Babajide Sodipo, former advisor to Rwanda's Ministry of Trade and Industry, said busi-

Chilean Program Incubates New Ventures for Six Months

an a country change its entrepreneurial culture? Nicolás Shea, Sloan '09, thinks so. And he's returned to Santiago, Chile, to prove it.

In February 2010, Shea was in Palo Alto working on expanding his e-learning company, eClass, when he received a phone call from Chile's minister of the economy. The minister knew that Shea, who grew up in Chile, had experience with both entrepreneurship and policymaking. He asked Shea to come home to help.

Two days later, an 8.8 magnitude earthquake hit Chile, killing more than 500 people. Shea made up his mind. He recruited his longtime friend **Cristóbal Undurraga**, MBA '08, to join him.

Today, Shea runs Start-Up Chile, a pilot program that offers foreign entrepreneurs \$40,000 and a system of supports to nurture their fledgling business ideas. The money has one string attached: Participants must spend six months living in Chile. Undurraga runs Innova Chile, a government agency that promotes entrepreneurship and innovation through various programs, including Start-Up Chile.

Shea expects many foreign entrepreneurs to leave after that time is up. But he hopes others will stay or, down the road, create companies with Chilean branches.

Traditionally, Shea says, Chile's culture of innovation has been weak. He has no illusions about the country becoming the next Silicon Valley. But he believes he can help Chile strengthen its ties to businesses and entrepreneurs here. While he realizes that government can be a slow vehicle to foster entrepreneurship, he nonetheless envisions Chile becoming a hub of innovation in Latin America.

Charles Holloway, director of Stanford's Center for Entrepreneurial Studies, and chairman of Start-Up Chile's advisory board, says he's never heard of any other country following this



Nicolás Shea, Sloan '09, spoke to GSB students in February about Start-Up Chile, a pilot program that offers foreign entrepreneurs incentives to nurture their fledgling business ideas in Chile.

particular model. But he's been impressed by the Chilean government's commitment and has strong confidence in Shea, his former student.

In the next few years, Shea hopes to recruit about 1,000 entrepreneurs. In August, the program welcomed its inaugural class of 25; in February it began accepting applications for the next 100. Among the first group was 30-year-old Amit Aharoni, MBA '10, and his friend Nicolas Meunier, MS '10 in electrical engineering. The pair met Shea last spring while searching for funding to start a company that

helps Americans find deals on cruises. He urged them to apply.

In a few months Aharoni developed a network in Chile. In the long term, his company will need to do marketing and sales in the United States, he says, but he can imagine someday returning to Chile to pursue other business endeavors.

"Chile would not be a question mark," he says. "I know people already here. I have friends, and I can pull resources. From that perspective, Nicolás Shea is doing something very smart here, for the long term."

-JOCELYN WIENER

ness people should see government officials as sources of rich information about people's needs. "African governments want investment that will create prosperity and improve people's lives," he said. Unfortunately, few investors are interested in the kinds of large infrastructure projects that African countries truly need because the return on capital is low — and slow. "It can take 50 years for a railway to offer a return," Sodipo acknowledged.

Richard Essex, general partner of East Africa Capital Partners, noted that the Chinese have been particularly successful in Africa. "They are willing to look at a much longer payback period," he said.

The January event was organized by Stanford students and chaired by **Brett Calhoun**, MBA Class of '11.

Energy Center Focuses on Finance and Policy

Stanford took another step toward advancing clean energy technology with the creation of the interdisciplinary Steyer-Taylor Center for Energy Policy and Finance at the schools of business and law.

Made possible by a \$7 million gift from **Thomas Steyer**, MBA '83, and his wife, **Kat Taylor**, JD/MBA '86, the center enhances the university's continuing efforts to address the challenges of global energy, including the TomKat Center for Sustainable Energy, a research center within the Precourt Institute for Energy.

"What our university did for the information revolution, it must now do for the energy revolution," Steyer said.

Steyer is founder and managing partner of Farallon Capital Management; Taylor is active in a variety of public benefit and philanthropic ventures.

Dan Reicher, JD '83, was named executive director of the center. He was an assistant secretary of energy during the Clinton administration and, most recently, director of climate change and energy initiatives at Google.

Pritzker Won't Accept Bad Public Education

"Other countries are out-educating and out-preparing their children to compete with ours," Penny Pritzker, the 41st Ernest C. Arbuckle Award winner told the award banquet audience in March. "A subpar education will snowball into employment challenges down the road."

Pritzker, JD/MBA'85, recently was appointed to the Chicago Board of Education and is chair of the Chicago Public Education Fund, a vehicle for private-sector investment in the nation's third-largest school system. The fund supports national board certification for principals and has started three new principal training programs.

"In any successful enterprise, getting the right leaders on board is job one," Pritzker said. "Investing in principal training is one of the most important things we can do to improve America's public schools."

Pritzker also chairs the board of Skills for America's Future, an Obama administration initiative to encourage community colleges to work closely with employers to develop curricula that prepare



Penny Pritzker, JD/MBA '85, and husband Dr. Bryan Traubert, through their Pritzker Traubert Family Foundation, donated seed money to Seeds for America's Future.

students for the workplace.

She sits on the President's Council on Jobs and Competitiveness, is chair of the board of TransUnion, chair and CEO of Pritzker Realty Group, and chair and cofounder of The Parking Spot, Artemis Real Estate Partners, and Vi, formerly known as Classic Residence by Hyatt.

In accepting the Arbuckle Award, Pritzker called on business school alumni to help fulfill

Hear alumnus James Shelton, undersecretary of education for innovation, describe how technology will improve U.S. education if business interests support change. Penny Pritzker and Miriam Rivera also speak about education at BizOnline. Stanford.edu/education.

the "moral obligation to educate all our children. If we don't educate our children so they can compete, a great American middle class will disappear."

Traditional Nonprofits Need a New Model

Only a handful of the well-known U.S. nonprofit organizations have managed to keep operating for 100 years or more. The key to their survival is change, say the CEOs of three century-old organizations who spoke to MBA students in January.

If there was a common theme among them it was that finding funding is becoming more difficult as old models of charitable giving dwindle. "Grants and contracts are in the past," said Peter Goldberg of the Alliance for Children and Families. "We need new ways to finance delivery of human services."

Goldberg noted that the Federal National Mortgage Association (Fannie Mae) successfully gave low-income earners access to home loans. "That was a fabulous public policy invention," he said. Nonprofits need a similar breakthrough from people "with a finance degree."

While having an iconic brand builds trust, it can also be a hindrance. The experiences that longtime volunteers and employees "had 10, 20, 30 years ago may not be as relevant to the needs and concerns of kids and parents today," said Cathy Tisdale of Camp Fire USA.

Goodwill Industries' Jim Gibbons said his organization has made the leap from old-line charity to a modern social enterprise that puts people to work in careers in financial services and computer programming, not just repairing donated goods. He added that he prefers the term social enterprise to charity. The difference, he said, is engagement.

The event was sponsored by the business school's Center for Social Innovation, Public Management Program, and Center for Leadership Development and Research.

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Quotable



"Recently, I was in Brazil with a seller who has 160 employees. They sell solely on our platform, so we are really enabling very large businesses."

—**Marcos Galperin**, MBA '99, cofounder of Mercado Libre, Latin America's online marketplace, at a Global Speakers Series event in March.

"There was a point in time when I realized the biggest barrier I had to my success was the class I was born into and not the color of my skin and not my gender."



—**Miriam Rivera**, JD/MBA '95, cofounder and president of Ulu Ventures and Stanford University trustee, speaking to students about the effects of poverty on student success. Rivera earned four degrees from Stanford.

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Angaza Design

The first product of Angaza Design is the Angaza SoLite, a low-cost home solar system designed to provide the lighting required by off-the-grid households in East Africa. The company was founded by four Stanford University students, including Micah Siegel and Kerry McGraw, both MBA Class of 2011.

Courseload

The web-based software from Courseload, a company founded by Mickey Levitan, MBA/AM'86, allows students to read and mark up digital books and other course materials. With Courseload, students don't purchase materials at retail price. Instead, the company offers a platform on which college administrators negotiate with publishers on their students' behalf and then tack the price of materials onto tuition. Courseload argues that buying in bulk will reduce the price for individuals.

Existence Genetics

Existence Genetics works with health care and wellness professionals to test patients for hereditary diseases, analyze the results, prepare detailed reports of the findings, and recommend future treatment based on those findings. Physician Brandon Colby, MBA'07, founded Existence Genetics in 2005 but spent five years in stealth mode while he invented and tested technology, applied for patents and state licenses, and even wrote a book (Outsmart Your Genes). Two MBA classmates - Paul Strachman and Nabil Kassam - helped Colby during the early years and serve as advisors now that the company has launched.

Liazon

Liazon helps small companies negotiate the maze of employee benefits. After employers define how much they can spend on benefits for each person, employ-



Mass Animation

Yair Landau, MBA '89, the former president of Sony Pictures Digital, founded Mass Animation in 2008 to develop crowd-sourced animated products involving collaborators from around the world. The company's first project was a short film created by 51 animators that played in theaters. The second was a cinematic trailer for the game *DC Universe Online*, plus the animation of some of the online game's heroes and villains. That project involved 65 animators from 20 countries.

ees select the benefits they want using Liazon's online "bright choices benefits exchange" portal to explore their options and stay within the boss's budget. The Buffalo, N.Y.-based company handles both benefits administration and consumer advocacy. It was cofounded by **Ashok Subramanian**. MBA '03.

LikeALittle

"You were leaving Old Union and I was coming in. You held the door for me. What caught my eye was your beautiful smile." That message and many more like it appeared on LikeALittle, a site described by cofounder Evan Reas, MBA'09, as a "flirting facilitator platform." LikeALittle was founded at Stanford in October 2010, claimed 20 million page views during the following 6 weeks, and spread to more than 450 campuses in 3 months. LikeALittle is a product of Hawthorne Labs, another Reas venture.

PayNearMe

PayNearMe, a company that allows people to make payments for online shopping without

a credit card, was founded by **Danny Shader**, MBA '89. Shoppers make an online purchase, then hie themselves to the local 7-Eleven to pay for it in cash. Next up, Shader plans to introduce international money transfers from the convenience store chain.

Pocket Gems

Founded when CEO and cofounder **Daniel Terry**, MBA '10, was still a student, mobile-device app maker Pocket Gems launched in September 2009 and announced its first multimillion-dollar month of revenue in January 2011. Pocket Gems' games are free to download, but players buy virtual goods as they play. The games operate on the Apple iOS and Android mobile platforms.

Product Madness

The company, founded by **Jose Brotons** and **Lior Shiff**, both MBA '07, develops applications, primarily casino games such as blackjack and roulette, for social networks such as Facebook. Product Madness derives its revenue from business-to-business partnerships with companies

seeking a presence online and from the sale of virtual goods on its own sites.

ProFounder

Kiva cofounder Jessica Jackley, MBA '07, and Dana Mauriello, MBA '09, created ProFounder, a web platform that helps entrepreneurs raise start-up funding within their community of friends and family and manage the process in a legally compliant manner. Investors receive a share of the startup's revenue every quarter for the term of the agreement, but the owners retain equity.

Vivecoach

Social gaming and physical wellness may sound like the alltime odd couple, but Vivecoach, cofounded by Jennifer Gill Roberts, MBA '93, and Doug Keare, MBA '92, offers a package of online challenges and competitions to companies that want to invest in their employees' health. Based in part on findings of the Stanford Persuasive Technology Lab, which shows how computers can change people's behavior, Vivecoach aims to make wellness fun.

WebFilings

Cofounded by Jerry Behar, MBA '88, WebFilings offers secure, fully integrated, cloud-based software for compliance reporting that supports a veritable alphabet soup of filing forms from the U.S. Securities and Exchange Commission. Behar, the managing director of WebFilings, is a former CFO and was cofounder and CEO of Financial Intelligence.

Wikimart

This online shopping mall for Russian speakers in the former Soviet Union was founded at Stanford in 2008 and launched in Russia in 2009 by Kamil Kurmakayev and Maxim Faldin, both MBA '09. Wikimart-hosted retailers, who sell everything from apparel to appliances, set up shop for free, then pay Wikimart 3% of sales revenue.





Left, the Class of '31 with faculty and staff in front of the GSB's original home in Jordan Hall in the main quad. Below, Sloan students tackle problems in the computer lab circa 1972.



From PAST to PRESENT



In 1969, this random group of first-year students, all MBA '71, gathers for a staged yearbook picture.

THE KNIGHT Management Center invited the world to drop by April 29 for a dedication ceremony and open house. Thousands accepted the invitation. Here we take a look at the school's past and its impressive new home. The crowd included more than 1,800 alumni/ae and their guests, who took tours and explored the center during the open house and alumni weekend events. We invite you to come for a visit or take a look online and download a mobile app at www.gsb.stanford. edu/knightcenter.





Above, women were vastly outnumbered by men at the GSB in 1972. But their numbers have increased to 39% of students admitted to the class of '12. Left, the 1989 Loma Prieta earthquake toppled shelves throughout Jackson Library.

Below, Bailey, son of Gregory Milken, MBA '01, photographs the art installation outside Cemex Auditorium, one of half a dozen artworks at the Knight Management Center. Right, a flash mob of MBA students celebrates the open house.







Dean Garth Saloner addresses the audience in the Knight Management Center's Town Square during the April 29 dedication service.



Above, staff member Patricia Wall views rally flags, including one created by Dean Saloner that reads "change, change, change!" Right, students and visitors use the five-level staircase in the Anne T. and Robert M. Bass Center.



How will the GSB help you dream big?

Entrepreneurial programs create opportunity.



Before Ibrahim Elbouchikhi came to the Stanford Graduate School of Business, he already had a track record as a successful entrepreneur. In his native Morocco, he launched a fair-trade organization that commercialized goods made by traditional artisans and founded Dig N Swap, an online clothes-exchange service.

At the GSB, the Center for Entrepreneurial Studies is helping him further pursue his passion. The center supports the Entrepreneurship Club, which he leads as a co-president, and the club's speaker series, which he launched as a first-year student. Ibrahim is also exploring entrepreneurship on a global level by working with a tech startup in Shanghai through a Global Management Immersion Experience project and by visiting organizations that are pioneering groundbreaking solutions to poverty as a leader of the Cambodia/Thailand Service Learning Trip.

"Entrepreneurship is about creating more opportunities, creating jobs, and adding value to the community. The curriculum, the people, the experiences, the interactions that I've had here at the GSB will help me convert my ideas into successful organizations."

Ibrahim Elbouchikhi, MBA Class of 2011

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The Limits of Long-Distance Management

Getting up close and personal delivers insights, forces focus, and facilitates difficult decisions.

WHETHER RUNNING OVERSEAS OPERATIONS or monitoring investments across the world, we have become dependent on our high-tech communication tools to manage remotely. Volcanic ash grounds the flight? No problem - Skype your way through the meeting. Board call at an inconvenient time? Grab your headset and take it from your car. In today's fast-paced world, managers receive real-time information on company performance 24/7/365. It all works so efficiently.

That is, until it doesn't. Until performance starts to slip. A missed forecast here, a supply chain surprise there. When a company begins to underperform, the questions mount. Tension ratchets up. Demand for data intensifies and even the most talented managers are baffled that nobody saw it coming.

As an advisor and interim CEO for troubled companies, I have learned that the way to effectively manage performance from a distance — to see it coming — is to get on site, up close, and extremely personal. Spending significant time in person delivers insights, forces focus, and facilitates difficult decisions. It is the only way to understand what is truly happening in a business and how to turn things around. What follows are a few examples where these lessons were driven home to me.

NOTHING FOCUSES THE MIND LIKE AN IDLE PLANT. As the new vice president of operations for an automotive parts manufacturing business, I arrived at our Mexican plant when it was eerily quiet at midday. I heard the hiss of compressed air bleeding from the lines and the intermittent clicking of electrical contacts before meeting workers who were waiting idly in the cafeteria for critical compo-

nents to arrive. Reassurances I had received the previous week from our U.S.-based materials manager about how we were solving component shortage problems no longer seemed comforting as I tried to explain the situation to staff and asked them to stay motivated.

To share the local tension, I called the materials manager in his office 2,000 miles away and suggested he get on a plane. After working two weeks in the plant and with local officials, he came to understand the impact of historical scheduling processes on this new, remote plant. Once he lived it, the problems were obvious, and a solution was quick to follow. Theoretically, that all could have been resolved by phone, but theory gets complicated, and patience wears thin across borders, cultures, and languages. He had to be there.

EVEN THE BEST PHONES DON'T PICK UP BODY LANGUAGE. Despite advances in communication technologies, they still obscure our senses and often deaden our intuitions. The complexity of team dynamics — and the need to observe them firsthand — was reinforced when I later



became CEO of that auto parts company. The general manager of our Alabama subsidiary had been a hero for averting bankruptcy at the division many years before. But the improvement had leveled off, and despite the transfer of several historically profitable lines into his operation, performance was declining. Material was piling up, quality was slipping, and customers were starting to grumble. Only by spending time on site with the GM and his staff did I realize the core problem: He was overloaded and not able to delegate.

The GM had rescued the company by controlling the details, but the operation had grown too big for him to manage alone. In one-onone sessions, staff members acknowledged the inefficiencies but complained of a culture where it was difficult to get things done. In meetings I noticed the body language: No one made a move without the GM's approval or advance support. His gruff, authoritarian style, which had been effective in a crisis, was no longer adequate or appropriate. Several months later, after a management change and a lot of long days by the local team, the operation was humming again with

Communication

activities coordinated among departments. It took being on site to understand the problem and implement a solution.

"DE-IMPERIALIZED" VISITS ENABLE REAL LISTENING. Much of my work today is for private equity groups, which include some of the brightest people I know. I am amazed at how well they understand industries and many facets of company operations. But they are also some of the busiest people I know, and this often leads to sterile update calls and board meetings where they review template-formatted numbers, which may not be the true drivers of the particular business. Their off-the-cuff ideas or hypotheses are frequently acted on as though they are purposeful instructions. (These are the company's owners after all.) Rare company visits become events with nervous managers and employees on high alert during rehearsed presentations and orchestrated tours.

I recently served as the interim CEO of a forest products company owned by a U.S. private equity firm. In my first briefings at headquarters, there was much discussion about the strategic importance of wood supply and the criticality of maintaining strong vendor relationships. When the owners visited the offshore plant with me, they were shocked to see the storage lot full of logs and the supplemental rented space across the street overflowing, as trucks continued to arrive with even more wood. It took that visual — along with the plant manager's candor about the oversupply of wood rotting in storage — to make it clear to the owners that their well-intended input was causing significant operating problems.

The shrewdest private equity groups realize that the way for them to get real insights into their companies and to substantively contribute is to "de-imperialize" their visits. They ask for formal reports but get on site for informal interactions. They recognize that familiarity leads to comfort, which yields informality in meetings so real information can flow. Their exchanges become substantive and useful to their management teams, and they in turn get a deeper understanding of the business themselves.

YOU CAN'T LOOK SOMEONE IN THE EYE WHILE READING YOUR BLACKBERRY.

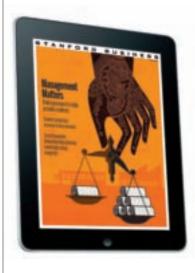
I am all for multitasking, but I've seen countless examples of ownership visits to portfolio companies interrupted by urgent phone calls or emails on unrelated matters. The interruption knocks the management team members off focus and sends a message that they are not important. No one will complain, but morale takes a hit. The reason to visit is to actually *be* there, absorbing not just what is shown but also the sights, sounds, culture, and conversations that can only take place in person. We know this intuitively, but too often forget when the device buzzes. Home office checks should not be impromptu but planned as part of the visit.

Face-to-face time at a company's operations accomplishes a number of things. It yields multidimensional data to make the right decisions, data that is otherwise inaccessible. It builds trust and helps forge a sense of partnership. In the long run, it saves both time and money. Conference calls, videoconferencing, email, instant messaging are tools that improve efficiency but only if we recognize their limitations. Business remains a human enterprise. For an owner or manager, seeing operations up close and in person is critical to success. •

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Scientists, Engineers, and Cowboys Cap Spill

Responders had to put aside differences to find a solution to Gulf disaster.

WHEN OIL BEGAN GUSHING into the Gulf of Mexico last year, scientists, engineers, and operations workers had different ideas about what to do. One of the biggest challenges for Marcia McNutt was getting these disparate groups to work together.

McNutt, director of the U.S. Geological Survey, is a former Stanford professor of marine geophysics and a certified scuba diver who trained with the U.S. Navy Seals. After the Deepwater Horizon oil rig blowout, she was tapped to direct the Flow Rate Technical Group that investigated the magnitude of what turned out to be the biggest oil spill in the nation's history. She spoke about the 4-monthlong experience at the Graduate School of Business in February as the annual Conradin von Gugelberg Memorial Lecturer. (A video

is available at BizOnline. Stanford.edu.) The MBA Class of '87 founded the lecture to motivate students interested in environmental issues.

In addition to understanding the science, McNutt said, the experts from differing professional approaches had to try to understand each other. "There were aspects of this oil spill - things like cultures - that were involved, and things like decision making and leadership," she explained.

The sea-floor gusher that wreaked havoc off the Louisiana coast resulted from an April 20 explosion aboard the Deepwater Horizon drilling rig, leased by London-based global gas and oil company BP. The explosion - triggered by methane gas that rocketed up from the sea floor to the rig through a mile of drilling equipment — killed 11 Deepwater Horizon workers. Ultimately, 4.9 million barrels of oil flowed from the submerged accident site for 87 days, destroying sea life and wrecking the region's tourism and fishing industries.

The government and BP investigators summoned to help used vastly different approaches to figure out what to do next, McNutt said. Scientists thought there was only one right answer. Engineers saw many possible solutions and considered the one that came in at budget, met deadlines, and minimized risks to be the best choice.

BP's marine operations people? They were the "cowboys," McNutt said. "They said, 'You want a design review? Can't we just put this together with tie wraps and duct tape and say done? We want to get it done [and] get back to the dock and have Miller time."

But they all wanted to stop the oil gusher as quickly as possible. "So these cultures often had opportunities to clash. But nevertheless, working together, in the end we did get it done," she said. Figuring out the flow rate was critical, because the amount of oil dispersant necessary depended on how much oil was in the water. The groups had to put their differences aside and figure out how best to analyze data gathered through video footage and acoustic methods.



Fire boats spray water on the burning Deepwater Horizon oil rig in the Gulf of Mexico.

Scientists convinced experts from other oil companies to give BP advice. McNutt explained: "People from Shell, from Mobile, and from Exxon all said, 'You know, our lawyers have told us that this probably is a bad idea, but because you asked us, we're going to come help.' They came, and they helped put some of our worst-case nightmares to rest."

An audience member asked, observing that escalating global demand for oil encourages drilling in ever-deeper parts of the ocean, "Is this disaster just the tip of the iceberg?"

"Technology is allowing us to go after resources that previously were unattainable," McNutt said. "Whether they were too deep or locked in formations that were viewed as inaccessible, technology has allowed those resources now to be accessible but sometimes at costs to fresh water and landscapes."

She added: "I think people need to take a look and say, 'Are we really going to accept this? Or do we need to more quickly move to alternative energies and [use] these as last resorts?"

McNutt gave mixed reviews to media coverage of the spill. While in some cases, journalists "made news rather than just report the news," other reports buoyed her committee's cause. For example, media out-



Marcia McNutt

lets wrote about BP "buying up" academic scientists by putting them on retainer to aid the company's defense against expected lawsuits relating to the spill. In exchange, those academics agreed not to publish their research for at least three years.

When this was reported, McNutt said, "There became a groundswell of universities that absolutely refused to be a part of that, and BP decided, 'This isn't in our best interest.' That was, I think, one of the media's shining moments."

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Finding Happiness in New Jobs, Lifestyles

The experience of these alums reflects how priorities evolve during our lifetimes.

FOR RICK INMAN, MBA '75, an investment in a power plant led to building schools and affordable housing in Guam. Meredith Tennent, MBA '75, moved from developing a hotel to art, an old passion. And John Goldman, MBA '75, was carrying on a family tradition of service on the San Francisco Symphony's board when he became president of the organization after selling his insurance brokerage.

These stories illustrate the varied and nontraditional directions that GSB alums follow after successful business careers. For some, the new direction still brings in income, though for others making money is no longer part of the plan. Those who seek not only a new job but also a new lifestyle exemplify what researchers have learned about happiness: that what makes us happy changes as we age. The variety of strategies these career-changers use offers lessons for people at any stage of their careers.

Before Tennent left her job at private investment firm Waverley Associates in 1998, she started working with a career counselor to help her find a new path. She had most recently been involved in development, management, and sale of the Ritz-Carlton hotel in San Francisco. At the counselor's suggestion, she started taking art classes again, something she had done in college, and began work in her own studio.

"I always knew that art was a major part of my life, and I knew that what I was doing in business beyond the hotel didn't light up my imagination," Tennent said. "It reintroduced me to an area I had closed off for most of my working career, and it made me feel good to reopen that door."

In any transition, networks are essential. Tennent had to build her art-related network from scratch. "I have developed a whole new set of friends who are completely unrelated to business," she said. "They are people I never would have met had I not done this."

The rewards for choosing new paths are usually more psychic than financial. Although Tennent has sold a number of art pieces, "I do this mostly for my own pleasure," she said. "You can learn to paint, but you have to reach inside yourself to really make a meaningful painting. The reward is being able to get there."

An occupation that doesn't come with an income is more likely to be an option for people who have already worked for a number of years. Tennent said her priorities shifted as she got older as well. "The older you get, you become a little more aware of how short life is, and that if you don't do it now, when are you going to do it? It sort of wakes you up."

Tennent's strategy of drawing on her past to find a future direction is not uncommon.

Pieter Winsemius, MBA '75, was introduced to the world of nongovernmental organizations when he served as the Dutch environment minister. Before and after that, he worked for McKinsey, consulting on corporate strategy and the interface between business



John Goldman, MBA '75, became president of the San Francisco Symphony after selling his insurance brokerage.

and government. He was also chair of the Royal Dutch Society for Nature Conservation. After he retired from McKinsey at age 60, he joined a think tank that advises the Dutch cabinet; his focus is social issues such as preventing school dropouts and encouraging community cohesion.

The dual focus of his career made it easier for him to make a major change later. "Lots of people are so specialized at age 60 that it's very difficult to move," he said. For example, business people sometimes offer to be the treasurer of a nonprofit, he said, but don't get involved in "the fun part of things."

Networks are crucial to any new venture. Even with his previous NGO experience, Winsemius found that to dive into social issues, he needed to branch out. Because the Netherlands is a small country, "you can develop networks quite quickly."

Goldman developed his nonprofit network by pursuing outside interests while working in state government and then running Goldman Insurance. After his mother died in 1996, he joined the board of the San Francisco Symphony, following in the footsteps of his mother and grandmother. "I just thought, 'This is a wonderful way to keep my mom's memory alive," he said. In 2001, after he sold his insurance brokerage, he was asked to become president, an unusual position that is essentially that of an unpaid CEO.

Sometimes, a career in business can help lay the groundwork for the next step. Walt Spevak, MBA'85, was head of community relations for Autodesk, a position that left him well connected to nonprofits in Marin County. His transition in 2003 was sparked by a "midlife review" and the realization that he wanted to be available to his children while they were still at home. He helped several nonprofits before settling on doing development work as a consultant for Right to Play, which organizes sports programs for children in refugee camps and orphanages. His connections in both the for-profit and nonprofit worlds helped him make another transition in the fall of 2010, when he started helping a fellow member of an angel investment group with a CFO consulting services business.

Although these transitions sound carefully planned — and many are — sometimes it's enough to simply pursue new experiences. "The important thing from my perspective was to be open to new opportunities," said Inman, who didn't go to Guam with a plan to build housing.

He and three partners acquired a power plant there, and after making the 21-hour trip from Atlanta to Guam to manage the plant, he talked with people on the island about what they needed. He discovered overcrowded schools and a significant need for affordable housing. He and a partner are now on their fifth affordable housing project, using the U.S. government's low-income housing tax credits, and they are expanding the fourth school they have financed and constructed.

Part of the reason people find happiness in these new lifestyles is that our definition of happiness changes as we age, said **Jennifer Aaker**, the General Atlantic Professor of Marketing at the GSB. Younger people tend to see happiness as excitement, she said. "Slowly but systematically the meaning of happiness migrates to being content, peaceful, calm." Although both younger and older adults feel these two types of happiness, the frequency shifts as people age and become more focused on the present than the future.

"This research has implications for careers," she said. For example, people starting their careers may choose jobs that promise power, promotions, money, or travel. As they age, "the opportunity to do something meaningful, or spend time the way you want to spend time, is likely to increase in importance," she said.

This shifting definition of happiness can make transitions both more meaningful and more scary. **Beth Gibson Sawi**, MBA '81, wasn't







From left: Walt Spevak, MBA '85, Pieter Winsemius, MBA '75, and Beth Gibson Sawi, MBA '81.



Meredith Tennent, MBA '75, consulted a career counselor before leaving her job at a private investment firm and decided to try art classes, something she had enjoyed as a college student.

sure how she would respond to life outside the corporate world when she retired from Charles Schwab at age 50. "I had a huge amount of anxiety about leaving my job," she said. "Could I survive in the non-structured world, without a title?" She spent a year after her retirement exploring options but making no commitments — and found that "it was absolutely delightful. Not having a title or a business card really didn't matter."

Sawi decided to work with nonprofits to stay intellectually engaged. She ended up cochairing the capital campaign for the Alameda County Community Food Bank. She is now on the board of that group and others.

Because of the way people's priorities and definitions of happiness change, the second career paths people choose would not necessarily have been successful as first careers. One key lesson from these transition stories: Keep your options open as you plan your career. "We often assume that the way we're viewing life right now is stable; our research suggests that it isn't," Aaker said. "The meaning of happiness shifts in systematic ways over the life course. As you make decisions about your career, consider building for flexibility." •

Life Transitions Initiative

IN JUNE, THE GSB will launch a new program, Beacon: Charting Your Next Phase. This inaugural life transitions initiative is designed to support alumni who have achieved the goals of their primary career and now have the time and freedom to focus on their passions, and the energy and ambition to continue to make a difference in the world. GSB Professor Jennifer Aaker, and lecturers Carole Robin and Chris Flink will work with a small group of similarly minded alumni to share the latest research on what drives happiness and meaning and to utilize new tools on how to unleash insight and innovation. Beacon is intentionally agnostic about the path that its participants wish to take. Instead, it focuses on providing the time and venue for participants to reflect, as well as the learning, resources, tools, and support to maximize their progress. For more information, go to gsb.stanford.edu/beacon or email GSBBeacon@gsb.stanford.edu.

Organization Theory Builders

Feeding off each other's ideas, a diverse group of scholars shaped the Stanford school of organizational behavior.



by JOCELYN WIENER

became home to one of the world's biggest, most vibrant communities of organizational scholars. In the ensuing decades, those scholars would develop some of organizational theory's most important ideas.

The "Stanford school" of organizational theory helped shape our understanding of schools, hospitals, banks, prisons, sports teams, and all kinds of businesses. Its ideas have informed policymakers and business leaders in such realms as education, medicine, business, law, engineering, military organization, and international development. Its scholars have examined everything from why some startups live and others die to how banks become too big to fail to why some hospitals have much better surgical outcomes than others. They have written books on topics ranging from the importance of reforming abusive bosses to how companies can translate knowledge into positive outcomes.

On campuses around the world, some of the school's hallmark ideas — including institutional theory, resource dependence theory, and population ecology — have proved fundamental to the education of decades of business students and organizational scholars.

Why did such remarkable scholarship blossom at Stanford? Why did its influence spread so widely?

In a volume published last year, *Stanford's Organization Theory Renaissance*, 1970–2000, students and faculty from that era grapple with those questions. Their answers point to a rare convergence of strong leadership, high research standards, generous federal grants, campus-wide collaborations — and parties on the beach.

The story, most agree, begins with a young professor named **Dick Scott**.

Fresh out of the University of Chicago, Scott arrived at Stanford's sociology department in 1959, around Christmastime, in part because the university had decided to invest in sociology. Within a couple of years, Scott would become well known for coauthoring *Formal Organizations*, one of the founding texts in the field of organizational studies.

But because the field was new, it didn't yet have many adherents. Scott missed having peers around who were reading the same books and grappling with similar ideas. "Either I'm going to leave Stanford," he decided, "or I'm going to look around and see if I can find some colleagues."

He found friendly faces first at the business school, then in education, then in engineering. By the early 1970s, these scholars — including Hal Leavitt, Gene Webb, and Bill Ouchi from the Graduate School of Business, Victor Baldridge and Edwin Bridges from the School of Education, and Jim Jucker from the School of Engineering — had created an interdisciplinary community of people who spoke the same language and were excited to discuss organizational phenomena from their different vantage points.

In the 1960s, the study of organizations had shifted from a focus on individuals within organizations to the role of the environment in shaping organizations. Stanford scholars expanded even beyond that by looking not just at the rational and technical forces that shaped organizations, but also at the social, cultural, and political forces.

In those years, Scott and others recall, Stanford did not have the same elite status it enjoys today. But a sense of momentum pervaded the campus, fueled in part by the growth of nearby Silicon Valley.

Andy Van de Ven, a professor at the Carlson School of Management

"You literally have people say things you never thought of. The diversity of perspective is so important."

at the University of Minnesota, believes the fact that Stanford was not yet counted among the top international universities may actually have helped the organizations group flourish. The success of that group, in turn, helped to improve the reputation of the entire university, he said.

Scott adds: "We were growing up with the university, and we were part of its leap to greatness."

In 1970, another well-known organizational scholar, **Jim March**, arrived at Stanford from the University of California, Irvine. Previously at Carnegie Mellon, March had coauthored two of the field's founding texts, *A Behavioral Theory of the Firm* and the succinctly titled *Organizations*. He came to Stanford with appointments in education, sociology, and political science, adding an appointment in business in 1978. His multiple hats — and cheerful charisma — helped to further integrate the growing organizational studies group.

Scott, March, and their colleagues decided to apply for a training grant from the National Institute of Mental Health (NIMH). The federal government was investing heavily in the social sciences at the time and also in the transitioning of the mentally ill from hospitals and asylums into community-based programs.

In making their case for funding, the Stanford group argued that (a) most services for the mentally ill are provided by organizations and that (b) all organizations — businesses, schools, hospitals — affect the mental health of their employees and the people they serve. Was this a stretch? The federal government apparently didn't think so. During the next two decades, the institute provided Stanford's organizations community with about \$10 million in funding, about half a million each year.

The infusion of so much money allowed the university's organizational studies program to take off. Every year, the grant supported about five doctoral students and five postdocs. These students, who hailed from different schools and departments around campus, met weekly in a seminar organized by Scott. The business school and the university also sponsored a quarterly conference and monthly colloquia that drew outside scholars. These regular interactions cemented the ties among young scholars and the professors with whom they worked.

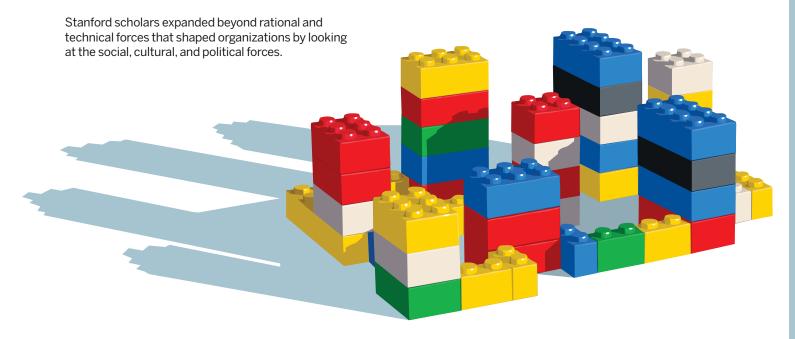
"You just become smarter when you hear other people's ideas," said **Claudia Bird Schoonhoven**, who came to Stanford in 1972 and was one of the first doctoral students to be funded by the NIMH grant. While Scott himself was a major draw for her, Schoonhoven said she also was attracted by the financial support, which allowed PHD students to finish in 5 years, instead of the 10 it could take at an underfunded university.

Now a professor at UC Irvine's Paul Merage School of Business, Schoonhoven says interacting with business students and professors as a young sociologist taught her to search for more concrete applications of the theories she was learning. This, in turn, informed her research on post-surgical mortality and morbidity rates in acute-care hospitals — and, later, on how high-tech companies are organized to deal with high-change environments and constantly evolving technologies.

"You literally have people say things you never thought of," she said. "That's what makes it so rich. The diversity of perspective is so important."

Stanford's organizational studies community. Increasingly, the field's most respected scholars had come to Stanford to develop theories that had emerged first elsewhere. John Meyer arrived in 1966 and joined Scott in developing institutional theory. Michael Hannan joined the sociology department in 1969 and worked on his ideas regarding population ecology. (He would later work in the business school. See a list of GSB participants on page 36.) Jim March pursued important work on decision making, leadership, organizational learning, and institutions. Joanne Martin, who arrived in 1977 and was for years the lone woman on the Stanford business school faculty, made great strides in her work on organizational culture.

Jeffrey Pfeffer, who had first described resource dependence theory in his 1972 doctoral thesis at the business school, was "lured back" in 1979 after developing his ideas at the University of Illinois



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and the University of California, Berkeley. His groundbreaking work looked at how external resources affect the behavior and power of an organization.

"If you hire good people and they do good things, then you get to hire more good people and they do more good things, and the cycle kind of builds on itself," he said.

As more of these top scholars came, they attracted many of the country's best graduate students. "It was enormously exciting in an intellectual way," Martin said.

HE INTERDISCIPLINARY ORGANIZATIONS community was important socially, as well, she said. Being the only woman on the faculty at the business school could feel quite isolating. In the organizations community, she met many more female colleagues.

This social aspect of the organizational studies community should not be underestimated, many who were on campus at the time say. Some of the most exciting conversations surrounding the emerging theories took place outside of formal lectures and seminars.

"What made that time at Stanford distinctive was this broader conversation," said Marc Ventresca, who began his doctoral studies at Stanford in 1985 and now teaches at Saïd Business School, University of Oxford. "It was seeing the same people week in and week out and having those debates and then having lunch the next week and pursuing them. There was a texture and a continuity to the conversations that I think shaped many of us."

The well-loved Jim March hosted wine-and-cheese gatherings in his office on Friday afternoons. Famous professors, who in the classroom might seem intimidating to students, were more approachable over a glass of wine.

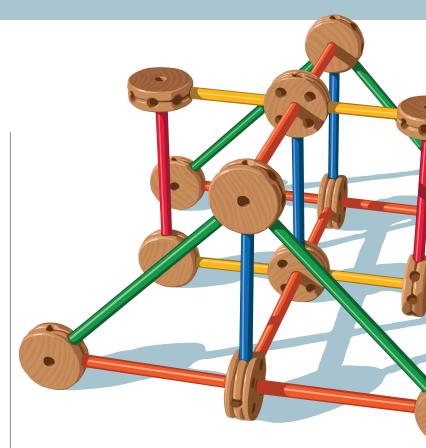
Perhaps the clearest, most iconic symbol of the community's growing vibrancy was an annual weekend gathering at Asilomar, the ocean-front conference center near Monterey. What had started as a small gathering in Menlo Park in 1975 a few years later had become a major social and intellectual event for organizational scholars across the country. The student-organized conference became an important tool for fostering a sense of cohesiveness among students and faculty alike.

Scott, through grants and other funding sources, provided the financial support for the gatherings, but students selected keynote speakers, presented papers, and worked out the logistics. At least as important as the formal presentations were the walks on the beach, the volleyball games, and the parties that ran late into the night.

"Often faculty-student relations can be very hierarchical," said **Frank Dobbin**, a Harvard sociology professor who first arrived at Stanford in 1980 to pursue his PHD. "At Asilomar you saw everybody in their swimming trunks. You sat next to everybody at the cafeteria."

The conversations and friendships at Asilomar spilled into the rest of the year. "It was sort of a family thing," said **Kathy Eisenhardt**, who arrived at the business school as a doctoral student in 1975. "It was relatively small, it was informal, everybody was focused on ideas and stayed at the conference." Now codirector of the Stanford Technology Ventures Program and the Stanford W. Ascherman M.D. Professor in the School of Engineering, Eisenhardt said she often brought her children to the conference.

With every passing year, the Asilomar conference grew, and its fame spread. Faculty at other universities asked to participate and began helping with the financing. Students from other campuses asked to join. Alumni came back.



As the field of organizational studies grew, Stanford's influence radiated outward. Doctoral students graduated and took jobs at other universities. They took the new theories and ideas with them, and taught them to the next generation of organizational scholars.

"It just was like a cyclone, feeding itself and getting stronger and stronger," Martin said. "It kind of spread out in a weaker form all over the country and then to certain international universities."

Outside organizational scholars also hitched brief rides on Stanford's rising star. Van de Ven, of the University of Minnesota, visited Stanford many times, giving talks at Asilomar and at the business and engineering schools.

"To an outsider, there was this welcome feeling among the Stanford community to participate in their activities and make contributions to understanding the field of organizations," he said. "You would both present your work and ideas, and in return, you would pick up ideas from others."

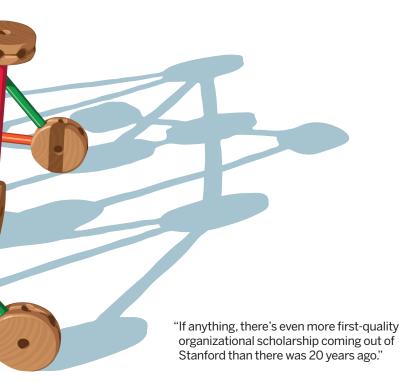
As the community grew in size and prominence, things began to change. Funding was one shift.

By the late 1980s, the Stanford school had enjoyed years at the center of the organizations world. But as the community grew in size and prominence, things began to change.

Funding was one shift. The federal government began reorienting its priorities to focus on the role of the individual in mental illness — as opposed to the role of social organizations. Realizing that the days of the NIMH grant were probably numbered, in 1987 Scott, March, Pfeffer, and others founded the Stanford Center for Organizations Research (SCOR). Even if they couldn't fund graduate students outright, Scott thought the university still should support an interdisciplinary community of scholars.

In 1989, the NIMH grant officially ended, having funded more than 120 pre- and post-doctoral students for nearly two decades. Together with Provost James Rosse, Robert Jaedicke, then dean of the

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Graduate School of Business, and **Al Hastorf**, then dean of the School of Humanities and Sciences, came up with additional funding to support the Asilomar conference and SCOR for a few more years.

By the mid-1990s, the annual Asilomar gatherings had ended. Soon after, in 1996, Dick Scott stepped down from SCOR in preparation for retirement. Despite his initial hopes, no one stepped in to take his place. And with that, a quarter-century of vibrant interdisciplinary seminars came to an end.

N SOME CASES, rifts had developed between faculty who belonged to the various schools and theoretical perspectives. By that time, too, the organizations group was no longer a small, nimble collection of a few like-minded souls. It had become the largest such group in the country. Increasingly, each school focused on its own group and its own ideas.

Joanne Martin likens this dissolution to an extended family, which, as it grows, tends to separate into various nuclear units.

"I think it dissolved because it got too big," she says. "You couldn't be friends with everybody so you tended to be friends with people who were closest to you intellectually."

But while some lament the end of those idealized golden years of the 1970s and 1980s, Martin and many others say Stanford continues to lead the field in producing great organizations research.

"I think, if anything, there's even more first-quality organizational scholarship coming out of Stanford than there was 20 years ago," she said.

Rod Kramer, who came to the business school in 1985 as a psychologist studying cooperation and conflict, remembers the excitement on campus when he first arrived. "Everyone was kind of on fire," he said. But, 25 years later, he says his students are just as excited. "It actually has gotten bigger and better in lots of ways."

To a more limited extent than was true under Scott's SCOR, collaborations continue to happen around campus. The Scandinavian Consortium for Organizational Research, a formal collaboration between Stanford faculty and Scandinavian scholars, was founded

Continued on page 36

Defining the Theories

Some of the most important theories in play in organizational studies today were developed at Stanford. Among them:

INSTITUTIONAL THEORY

Stanford proponents: Dick Scott, John Meyer, Jim March, Johan Olsen, Woody Powell

WHAT IT IS: Institutional theory looks at how rules, culture, ideas, and normative pressures shape the structures and strategies of organizations, how they spread, and how they fall into disuse.

Stanford scholars pointed out that many of the formal aspects of organizations — including offices, rules, and public statements — were created primarily to affect the perceptions of audiences in the wider environment rather than to influence the behavior of participants. They demonstrated that laws often impact the behavior of organizations and their members not through regulatory power but because they initiate new conversations and interpretations within the organizations.

ORGANIZATIONAL ECOLOGY

Stanford proponent: Michael Hannan

WHAT IT IS: Organizational ecology uses concepts and methods of biological ecologists to look at the reasons why organizations are born, grow more numerous, compete, and eventually die. Research in this area helps sector leaders understand the pressures of their environment.

Ecologists point out that because of the "inertia" affecting organizational structures, when highly innovative technologies arise, they are seldom incorporated into existing organizations, but give rise to new types of organizations and new industries. For example, traditional electronic companies were not able to incorporate microchip developments and lost out to new semiconductor firms.

RESOURCE DEPENDENCE

Stanford proponent: Jeffrey Pfeffer

WHAT IT IS: Resource dependence recognizes that a given organization — be it a hospital, a school, or a corporation — is dependent on other organizations for necessary resources and technical information. The theory looks at how external resources affect the behavior and power of an organization.

It boasts three core ideas: (1) The organization's environment or social context affects decisions ranging from whom to hire to the composition of boards of directors to what alliances and mergers are completed. (2) Although organizational decisions are constrained by their environments, organizations can and do take actions to mitigate those constraints and create more autonomy for themselves. (3) The concept of power is important for understanding both the internal dynamics of organizations — for instance, the selection of CEOs of various backgrounds — and the power dynamics between organizations.

ORGANIZATIONAL LEARNING

Stanford proponent: Jim March

WHAT IT IS: Organizational learning examines how organizations try to learn from their own and others' experiences, the occasions on which those efforts lead to improvement, and the many ways in which learning from experience can be misleading. For example, using experience to augment ability with one technology can make it difficult to switch to a new, potentially better technology — what is known as "the competency trap."

ORGANIZATIONAL CULTURE

Stanford proponent: Joanne Martin

WHAT IT IS: Organizational culture can be used to describe everyday working life in all kinds of small, moderate, and large-scale organizations — both nonprofit and for-profit — ranging from doctoral seminars to large government agencies such as the Peace Corps to even larger multinational corporations. It refers not only to the values, attitudes, beliefs, and behavioral habits that organizational members share but also to those that cause conflicts between subcultures, and the ambiguities that cross supposed cultural and subcultural boundaries.

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Scaling UP Manufacturing Jobs



WITHOUT FACTORIES, the United States will lose its edge in new technology, says former Intel chief Andy Grove, and maybe more of its middle class.

by ROBERT D. HOF



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Andy Grove rarely pulled punches. His opening lecture last fall at a Graduate School of Business seminar taught with Professor Robert Burgelman was no exception. The seminar, *Strategic Thinking in Action — In Business and Beyond*, looked at Silicon Valley's role in the computer, semiconductor, and automotive industries, with Grove in particular examining the region's role in U.S. employment. But it became immediately apparent he had even bigger concerns.

In quick succession, he showed slides of unemployment rates matched to graphic depictions of massive worker protests in France in 1848, Russia in 1917, and the United States in 1932. For that last example, he "scared everybody," says Burgelman, by playing a video clip of tanks and armed soldiers repelling jobless veterans rallying on Pennsylvania Avenue in Washington, D.C. "It was a little sobering to start a class like that," says **Joe Bingold**, MBA Class of '11.

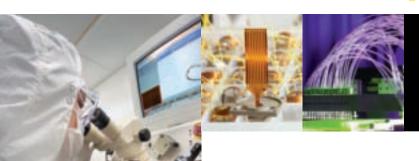
Grove's point couldn't have been clearer: Unless the country wakes up to the real challenge of creating jobs and starts to chip away at stubbornly high unemployment, it could face social unrest it has not seen in generations. The only hope, he contends, is to restore a manufacturing base in the United States. Traditionally, manufacturing was responsible for producing millions of middle-class jobs as companies scaled up to produce successive waves of new products. According to market researchers IHS Global Insight and Moody's Analytics, manufacturing jobs on average pay \$22 an hour, nearly double the average for service jobs. Today's nearly 9% unemployment rate pales next to the 38% rate in 1932, but manufacturing workers are faring far worse. Their jobs decreased by nearly 21% from 2001 to 2009, or about

and solar panels for clean energy. "Without scaling, we don't just lose jobs. We lose our hold on new technologies," he contends. "Abandoning today's 'commodity' manufacturing can lock you out of tomorrow's emerging industry."

Grove also says government must take a more active role in spurring new industries. In particular, he calls for extra U.S. taxes on goods produced by overseas labor, with the proceeds to be invested in what he calls a "Scaling Bank of the U.S." That fund would dole out dollars to companies that grow manufacturing operations here instead. "If the result is a trade war," he added in his essay, "treat it like other wars — fight to win." Separately, he also has called for a new immigration policy giving foreign graduates of U.S. institutions green cards so they can work or start companies here instead of overseas.

Both Grove's apocalyptic vision of the future and some of his proposed remedies sound over the top to many, including some of his students, economists, and businesspeople. But he has reignited a longstanding debate about the impacts of globalization, giving voice to some who believe the free market can't solve every problem. Grove has gained at least one very high-profile supporter: President Obama. During a Feb. 18 tour of an Intel plant in Oregon, the president praised Intel's commitment to U.S. manufacturing, citing Grove's belief that corporate leaders have dual obligations. "One obligation is to your shareholders," Obama said. "But the other obligation is to America, because a lot of what Intel has achieved has been made possible, in Andy's words, 'by a climate of democracy, an economic climate, and investment climate provided by our domicile, the United States."

The plight of U.S. manufacturing reflects economic incentives that



Grove has reignited a longstanding debate about the impacts of globalization, giving voice to some who believe the free market can't solve every problem.

290,000 jobs a year, according to the U.S. Bureau of Labor Statistics.

Many economists believe that it doesn't much matter to U.S. prosperity where manufacturing is located as long as the domestic economy can keep generating new innovations and the highly paid

design, programming, and other knowledge-based jobs that go along with them. Grove rejects that view. "What kind of a society are we going to have," he asked last year in a controversial *Bloomberg Businessweek* cover essay titled "How America Can Create Jobs," "if it consists of highly paid people doing high-value-added work — and masses of unemployed?"

He suggests, for one, that corporations and their investors must look beyond the next few quarters of profits. Individual companies pursuing their own agendas leads to offshoring manufacturing and even research and development to save money, he says, but the result is a gradual loss of the expertise and knowledge needed to create and scale up manufacturing for the next great industries, such as batteries

favor careers in finance, says serial entrepreneur **Judith Estrin**, MS Electrical Engineering '77, author of the 2008 book *Closing the Innovation Gap* and member of the advisory councils of Stanford's School of Engineering and Bio-X Initiative. "For the last couple of decades, we have been training people to be investment bankers," she says. "The people who make the most money — such as hedge fund managers — take away jobs. Our economy went on a diet of empty calories."

Grove can't be easily dismissed, least of all by the business community. One of the most revered industrial figures of the past few decades, he helped build a company that remains a shining example that domestic manufacturing can make economic sense. Although it has many manufacturing operations overseas, Intel still builds multibillion-dollar semiconductor plants in the United States. It has maintained a global dominance in microprocessor chips used in most personal computers — making three-quarters of those chips in the United States, even though three-quarters of them are sold elsewhere. Intel employs 44,000 people in the United States, more than half its overall workforce of 84,000.

On one central point, Grove has found wide agreement among

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businesspeople, academics, and the government: The United States needs at least a basic expertise in manufacturing for a healthy economy. "When you lose manufacturing, you lose the ability to do everything up to and including services," says Kevin Surace, CEO of Serious Materials, a Sunnyvale, Calif., company that makes highly insulated windows and drywall in six North American plants and offers energy management services. **Kathryn Shaw**, the Ernest C. Arbuckle Professor of Economics at the Graduate School of Business, says manufacturing knowledge is also key to high-end jobs such as design. "A product needs to be designed for optimal manufacturing, and you need to manufacture to know how to do that," she says.

Burgelman, the Edmund W. Littlefield Professor of Management and director of the Stanford Executive Program, says Grove also has opened people's eyes to a key dynamic of a successful industrial base: Only the knowledge gained by manufacturing today's products can provide the insight needed to create the industries of the future. By making batteries and solar panels outsourced by U.S. companies, for instance, China has positioned itself to dominate huge future markets for electric cars, mobile devices, and green energy. "If you let go of manufacturing, eventually you will miss the learning feedback loop that leads to innovation — and others like China will do it instead," Burgelman says.

HE KEY POINT OF DEBATE is how much the government should get involved. Grove says it should help set investment priorities and provide incentives to enforce them at least in strategically important industries. "While free markets beat planned economies, there may be room for a modification that is even better," he says. Burgelman suggests that China and other Asian nations such as Taiwan and Singapore may represent a new kind of economic player and require different strategies to compete against them.

In contrast to "entrepreneurial market states" such as the United States and "managerial market states" such as Germany, Burgelman says, China and its neighbors are what he calls "mercantile market states," which promote exports through tariffs, currency manipulation, and other means and use the export capital gained to buy foreign assets, from bonds to real estate. "We do not fully understand the rules of this game yet," he says. But the upshot, explicit in Grove's call for action, is that competing with China successfully may require more government participation than we're accustomed to.

The idea of explicitly targeting industries for government help, often called industrial policy, has been anathema, especially among free-market economists and businesspeople who don't believe governments can successfully pick winning companies or industries. But the recent rise of China, whose government has invested billions in certain industries such as electronics manufacturing, has some experts taking a new look at how industrial policy might be employed more effectively. There have been some U.S. successes too. SEMATECH, a consortium of chipmakers, got \$500 million in federal funding starting in 1988 to improve manufacturing processes to compete better with Japan, by most accounts achieving that goal before phasing out government funding in 1996. "The big step is to get over the 'bureaucrats can't pick winners' type of knee-jerk rejection," says Robert Wade, professor of political economy and development at the London School of Economics.

Still, some of Grove's thinking remains outside the business mainstream. TechAmerica, an advocacy organization with 1,200 technology company members, recently came out against "piecemeal proposals" to increase taxes on U.S.-based firms that do business over-



Professor Robert Burgelman and Andy Grove teach together.

seas. Estrin says she opposes taxes on overseas labor but thinks economic stimulus money or R&D tax credits could be given to companies that hire and spend in the United States.

Grove has come in for more direct criticism as well. Some people perceived his essay as an attack on foreign workers. That's not what he intended, says Grove, a Hungarian immigrant whose company has employed many Indian and Chinese workers; in fact, much of his criticism was aimed at what he views as short-sighted American attitudes toward the importance of manufacturing. But his focus on jobs for Americans "sounded xenophobic" to Vivek Wadhwa, visiting scholar at the University of California, Berkeley's School of

Tech America, recently came out against "piecemeal proposals" to increase taxes on U.S.-based firms that do business overseas.

Information, who wrote a dissenting commentary in *Businessweek*, "Why Andy Grove Is Wrong About Job Growth."

Wadhwa and others also say Grove's contention that most jobs are produced by established companies scaling up manufacturing is mistaken. Most jobs are created by startups, not larger companies such as Intel, he says. He cites the Kauffman Foundation's findings that from 1977 to 2005, existing companies lost a total of 1 million jobs per year, while new companies in their first year added about 3 million jobs annually in aggregate. Besides, Wadhwa contends, U.S. workers don't want jobs like those at China's Foxconn, where 17 suicides have raised concerns about working conditions at the giant contract manufacturer for Apple and other tech companies.

"They used to," Grove retorts, when those jobs were still available in the United States. He agrees that startups can be valuable job creators. But he says persistent high unemployment today, even during a time when some highly successful new startups such as daily-deal

service Groupon have grown quickly into sizable companies, proves they are not enough. To restore the American job machine, he says, startups need the incentives to scale up manufacturing in the United States so they can hire thousands of Americans.

The problem, says **Kevin Fong**, MBA '82, special advisor to China-focused venture capital firm GSR Ventures, is that many kinds of manufacturing tasks, such as semiconductor assembly, are simply cheaper to do in China. "For Intel, it makes a lot of sense to manufacture in the U.S. — they're really pushing the edge of technology," he says. But for others, using Chinese manufacturers is the only way to be cost competitive. "VCs prefer investments very close to them," he notes. "So if we're going to China, it's because the economics demand it." Grove doesn't dispute the current economics China offers. But he contends that those economics can and should be changed with government carrots and sticks.

Carrots for reducing pollution offered by the European Union and China led **Mike Biddle**, Sloan '91, to open factories overseas rather than in the United States. He is cofounder of MBA Polymers, a Richmond, Calif.-based company that developed processes for retrieving plastics from junked computers, appliances, and cars, and turning them into pellets that are reused. "I employ 25 people in California and 250 overseas," he told the *New York Times* last year,

1,000 additional workers. But in November, the company abandoned the expansion plans and even laid off at least 155 workers. The reason: intensifying competition from both Chinese and U.S. rivals.

All that leads some economists to doubt there is a politically palatable solution. "I wish we could get those jobs back," says Shaw, who has studied the steel industry in depth. "But I don't see a policy mechanism to make that happen."

In the GSB seminar, Grove didn't offer his team of five 2011 MBA candidates an option to give up. He asked the team — Joe Bingold, Nick Halla, Lonny Olinick, Ian Tien, and Jim Wilson — to come up with potential fixes that were politically plausible, promised results in three to four years, and required no additional government funding. "It's not as simple as 'We want jobs," Bingold says. "We need jobs that support our standard of living."

Mainly, the team said the United States could learn a lot from Germany, which produces more high-end goods, in industries from autos to renewable energy, than China and other low-cost manufacturing countries. How? For one, management and labor have a more cooperative relationship, emphasizing on-the-job training and wage freezes or temporary short work weeks instead of layoffs. German research and development also is focused more on improving manufacturing technologies than R&D in the United States. And the government uses



"The great destroyer of manufacturing jobs is productivity, not outsourcing or offshoring."

shortly after he won the *Economist* magazine's 2010 Innovation Award for energy/environment. The reason his factories aren't in the United States is that the country does not have producer-responsibility laws requiring the collecting and recycling of anything with a cord or battery. Those laws elsewhere not only reduce pollution but produce economies of scale for him.

However, offshore manufacturing isn't the main culprit in job losses, many economists say. Instead, it's automation: the use of computers, often powered, ironically, by Intel's microprocessors, to replace work once done by people. According to the Palo Altobased Center for Continuing Study of the California Economy, industrial production increased by 2.5% a year between 1990 and 2008, but productivity growth increased much more, 3.8% a year, requiring 24% fewer manufacturing workers. "The great destroyer of manufacturing jobs is productivity, not outsourcing or offshoring," says **Stephen Levy**, MA Economics '67, the center's director and senior economist.

Moreover, it can be tough for the government to figure out the most promising technologies and, especially, companies. In spring 2010, President Obama visited Fremont, Calif.-based solar-panel manufacturer Solyndra and announced that the federal government would lend it \$535 million to finance an expanded factory that would employ

various incentives such as renewable-energy targets to encourage faster progress in new technologies. Grove said Germany deserves more study as a potential guide for what the United States should do.

The student team also suggested three long-term strategies that would help: One is to reform immigration to encourage U.S.-educated foreigners to start U.S. companies; foreign graduates of top universities in manufacturing-related fields who raise at least \$500,000 in funding could be granted permanent residency status so they could start U.S. companies. The team also called for education reform to emphasize math and science, where the United States has fallen behind. Finally, the report suggested revising the World Trade Organization to force more favorable trade terms and currency exchange rates that currently make Chinese manufacturing appear artificially inexpensive.

All of those, however, require political and even cultural changes, and in some cases government funding, taxes, or tax breaks to implement. So while Grove supports them, they won't happen quickly, if at all. As the students' report concluded, "There is no silver bullet to stem the loss of U.S. manufacturing jobs." That was a disappointment to Grove, who says he had hoped for more actionable recommendations.

He finds some encouragement, however, in recent moves by President Obama, who set a goal last year to double exports by 2014. Because 70% of exports are manufactured goods, says Ro Khanna, deputy assistant secretary for domestic operations for the Commerce Department's U.S. and Commercial Service, "there's a real drive in the administration to make America more competitive in manufacturing." As though to underscore the point, Intel announced during Obama's February visit that it will start building a new \$5 billion chip plant in Arizona later this year. Ultimately, Grove says, it's up to U.S. businesses to "plug away and create enough successes" like that to prove the skeptics of domestic manufacturing wrong. •

Former BusinessWeek Silicon Valley bureau chief Robert D. Hof is a writer in Palo Alto.

Quantifying Effectiveness of Management

IF YOU'VE SPENT ANY TIME at all in business school, the question, "Does management matter?" seems almost absurd. After all, graduate students spend two years or more reading case studies and delving into the details of management strategies, and studies of "managerial technology" were published as early as 1887. It turns out, though, that the answer to that question is far more complex than it appears.

While there's no doubt that there are "astonishing differences in productivity across both firms and countries," economists aren't convinced that management actually matters to economies, Stanford economist Nick Bloom says. Why the skepticism? "One reason is the belief that competition will drive badly managed firms out of the market. Another is the complexity of management, making it hard to measure," he says.

Until relatively recently, researchers had limited access and quality data, especially in the area of human resource management. The case studies so popular in management education "are a great way to internalize a deep example, but the drawback is they are built on just one data point. They are not quantitative," says Kathryn Shaw, the Ernest C. Arbuckle Professor of Economics. "It isn't easy to find cases where there is an actual hypothesis on why management matters."

Now, however, the spread of information technology has had a huge impact not only on how workers are managed but also on the ability of researchers to compare the effec-

tiveness of different strategies. More data is produced by firms and government agencies. But data alone can be misleading. Talking to insiders is also essential to interpret it, says Shaw, who is widely credited with developing a research framework called "insider econometrics" when she began studying steel mills in the '90s.

For more than a decade, researchers at Stanford and other leading universities have been examining management strategies related to human resources practices in an effort to establish clear causal connections between the actions of management and increased productivity or competitive advantage. They have made those connections in studies of industries and occupations that include steel and software manufacturing, auto-glass installation, fruit picking, nursing, banking, and textiles. They've analyzed management practices such as team-based pay, incentive pay, social networks and information sharing, call monitoring, and more.

In a 2009 paper coauthored with Columbia's Casey Ichniowski, a frequent research partner, Shaw explained that three fundamental questions are addressed by insider econometric studies:

- Why do firms in the same industry adopt different management practices?
- Does the adoption of a new management practice increase productivity?
- If so, why does the new management practice increase productivity?

"This research approach addresses these questions by combining insights from industry insiders with rigorous econometric tests about the adoption and productivity effects of new management practices using rich industry-specific data," they wrote.

Who are those "insiders"? In a typical business school case study. it's the top managers; in an insider econometrics study, an insider could be a worker on the assembly line. By talking to people intimately involved with production, researchers can see relationships that otherwise would remain hidden.

The value of that practice was demonstrated by a well-known insider econometrics paper published in 2005 that looked at different types of incentive pay for fruit pickers on one farm. When the company switched from a compensation plan in which worker pay was based on how much they produced relative to other workers to a simple piecework plan, productivity soared by 58%.

Seeing the increase in productivity was very simple, of course. But insider econometrics asks why the increase occurred. After conducting extensive interviews with the field workers, the researchers realized that workers who picked alongside their friends under the original plan didn't want to excel because extra pay would come at the expense of fellow workers. Once that impediment was removed, they felt free to do their best, and productivity increased.

One study showed that software engineers were paid more if they worked in volatile segments of the industry.

Interesting as it was, the fruit picker study involved one firm with fewer than 200 employees. But armed with far richer data sets than were available even a few years ago, researchers can look across entire industries.

In 2009, Shaw and four colleagues examined the relationship of compensation to innovation across the software industry, a huge sector employing thousands of workers. They hypothesized that firms operating in the more volatile segments of the industry would hire more top-flight talent and pay more than firms competing in more stable segments of the software market.

Testing that hypothesis would have been difficult in the past. Detailed data on a broad sampling of employees was not available, which is why most compensation studies, until recently, have focused on CEO pay. Empirical studies, the researchers say, had yet to establish a link between product market strategy and human resource practices using data covering more than a small number of firms or a select group of employees.

Now, however, much broader and deeper data is available through the U.S. Census Bureau and state agencies that track unemployment insurance contributions. The researchers analyzed salary, including exercised stock options and bonuses, and revenue data from software firms in 10 states. Using that information, they were able to calculate the different potential payoffs for various types of software products and how those payoffs related to compensation. And their assumption was correct. [Details at http://www.gsb.stanford.edu/news/research/ Shaw_software_strategies.html]

"In addition to data [from the Census Bureau and other agencies] we also have far more data from within firms. This may have

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Professor Kathryn Shaw, who teaches in the MBA and PHD programs, developed a research framework called "insider econometrics."

begun with manufacturing and operations, where the machines today measure everything about performance. But now it has extended to measuring employees' traits and behavior and performance," Shaw says.

For instance, oDesk, a large online labor market based in Redwood City, Calif., gave **Christopher Stanton**, a 2011 PhD candidate who is supervised by Shaw, access to anonymized records of more than 300,000 contractors who have used the service since its founding in 2005. He used that data to build a model of how agencies — third-party groups working within a labor market such as oDesk — improve the hiring process and lead to higher initial salaries for workers, particularly in developing countries.

Another Shaw student — **Sara Champion**, a 2011 PhD candidate — used an even larger data set to study the effect of teacher accountability standards on the work habits of teachers. She looked at pay records of 700,000 teachers in three states, eventually compiling 3.7 million data points.

She found that those standards and the threat of actions against educators whose students don't progress have led teachers to significantly reduce the amount of time they spend "moonlighting," that is, working at second jobs outside the school. Champion is collecting and analyzing additional data, hoping to determine whether the decline of moonlighting corresponds to higher student achievement.

While these four studies are quite dissimilar, all rely on a careful regression analysis of the collected data to pinpoint a cause for changing behavior. The ability to perform that analysis is so important that Shaw tells students in her data-driven management class that if they can't do a regression, they're in the wrong class. (A regression analysis is a technique for modeling and analyzing several variables with the goal of understanding the relationship between a dependent variable and one or more independent variables.)

Being qualified to analyze data doesn't mean it's easy to get it; indeed, diplomacy and the use of informal connections can be almost as important as mathematics. Companies may be concerned about privacy issues or be reluctant to divulge proprietary information,

says John Roberts, the business school's John H. Scully Professor of Economics, Strategic Management, and International Business. "Normally companies don't hand out data, so we have to get in and earn their trust."

When Edward Lazear, the school's Jack Steele Parker Professor of Human Resources Management and Economics, was studying incentive pay for auto-glass installers in the late 1990s, he had the "ultimate ally" inside the firm, CEO Garen Staglin, MBA '68, a business school alum, Roberts recalls. "Had Garen not made the data available, Ed could never have done this tremendously influential work," Roberts said. In that case, piece-rate pay was better than hourly pay.

Another example is Yanhui Wu, a former journalist now at the London School of Economics, who leveraged his knowledge of the publishing industry to get inside a major Chinese daily newspaper to study productivity between 2004 and 2006. The issue is sensitive enough that Wu is not free to mention the name of the newspaper, but he found that when the paper centralized more authority in upper management, reporter productivity increased. Product quality, as defined by the managers, also increased.

Insider researchers get as close as possible to the firms and people they're studying. Some are taking that a step further by conducting controlled experiments with the cooperation of management and comparing productivity not just across industries but also across countries. Stanford's Roberts, Bloom, Aprajit Mahajan, and two colleagues conducted a two-year field experiment examining management practices in the Indian textile industry.

Rather than simply observe, they hired consultants to work with one group of companies and teach their management "best practices" to improve productivity. A second group of firms that were not steered toward change acted as the experiment's control.

The researchers saw productivity in the first group increase by about 10%, along with gains in profitability, while productivity of firms in the control group increased by just 1%. [See *Stanford Business* magazine, Winter 2010-11.]

It showed, the researchers said, that management really does matter. ullet



When Shareholders Drain Company Assets

Professor studies damage from 'tunneling' by Chinese companies' majority owners.

MAJORITY SHAREHOLDERS who divert assets from one company to another for personal benefit can be found in some developing nations. The practice robs companies of value and even forces them to be delisted from stock exchanges. Business school professor Charles M.C. Lee and his coauthors documented the damage in a study of Chinese companies.

What happens when a company is robbed by its dominant shareholder?

The theft not only hurts minority shareholders but also profoundly damages the firm's longer-term health and viability, says Lee, the Joseph McDonald Professor of Accounting at the Stanford Graduate School of Business. In a recent research paper, Lee and two Peking University scholars, Guohua Jiang and Heng Yue, examined such insider abuse in an increasingly important market: China.

The practice is known as "tunneling," in which a majority shareholder diverts assets from one company to another entity for his or her own benefit - like someone using a tunnel beneath a vault to remove money. Until a recent government crackdown that has mostly snuffed it out, the practice was widespread among publicly listed firms in China.

Lee and his coauthors studied self-dealing through loans from publicly listed companies to entities tied to the companies' controlling shareholders. Chinese businesses with such insider misbehavior had worse operating performance, traded at lower market multiples, and were much more likely to become candidates for delisting, the researchers found. The loans, typically never repaid, diverted tens of billions of Chinese yuan from hundreds of listed companies from 1996 to 2006, they concluded.

"These majority shareholders treated these companies like their private ATMs," Lee says. The paper, "Tunneling Through Intercorporate Loans: The China Experience," was published in October by the Journal of Financial Economics.

Besides loans, tunneling can involve asset sales, excessive pay and perquisites, manipulation of dividends, targeted issuance of equity, loan guarantees, or favorable contracts for related parties.

Insider abuse is a significant problem globally, but especially in the developing world. In most countries, ownership of listed companies is not nearly as widely distributed as in the United States and Japan. "When you go into Asia, Europe, Latin America, public companies often are held by majority shareholders. The controlling shareholder has many degrees of freedom and can creatively divert [money]," Lee says.

The researchers examined data on 1,377 firms listed on the Shanghai and Shenzhen stock exchanges from 1996 to 2004, representing 85% of China's market capitalization. Their tool for identifying insider abuse: "other receivables" on the balance sheets of most companies.

Other receivables are amounts owed to a company arising outside the ordinary course of business. Typically, a Chinese company extended loans to parties associated with the controlling shareholder. Most of the loans were interest-free and never repaid. The researchers identified and quantified the suspect receivables by combing through financial footnotes, using statistical techniques, and cross-checking with other sources. "We had a smoking gun. We could actually trace the money," Lee explains.

He was surprised by how widespread the tunneling was. Other receivables amounted to 8.1% of total assets for the average Chinese company and 5.4% of market capitalization for all firms. In the United States, the percentages would be virtually nonexistent, he says.

How Tax Policy Built the Mutual Fund Industry

SINCE WORLD WAR II, financial institutions have come to own a far greater proportion of stocks than private households. Just after the war, individual citizens owned 90% of the stock market; by 2006, they owned only 30%. And the trend is not restricted to the United States. It spans the globe.

Why the big drop? Most research has assumed that intermediaries such as the mutual fund industry have taken over stock ownership because of a public demand for portfolio diversification. But a new study from the Stanford Graduate School of Business argues that tax policy is the driving force. The research shows that household stock ownership decreases as the tax benefits associated with owning stocks inside a pension plan increase.

The finding sheds new light on the long-term effects of taxation on corporate finance and asset prices, and should be of interest to public policy makers.

"The particular tax policies that have influenced stock ownership are those that on the one hand have increased households' income tax and on the other have created the possibility for pre-tax savings," says Ilya Strebulaev, associate professor of finance and Spence Faculty Scholar for 2010-2011, a coauthor of the study. Such policies, he notes, are fairly recent, having originated only in the 1930s in the United States.

"When income taxes are high, households prefer to save within their tax-deferred retirement plans," he explained. Because the proportion of taxpayers in top brackets has grown in the past 60 years, individuals have transferred more and more of their direct stock ownership to various financial intermediaries, such as pension funds in the United States and insurance companies in other countries,

Using empirical data, Strebulaev and his coauthors, Kristian Rydqvist and Joshua Spizman of Binghamton University in New York, made the dramatic discovery that up to 70% of all stocks in the United States — held by domestic agents such as mutual funds, pension funds, and insurance companies - now are kept in taxdeferred plans.

The researchers also looked internationally, painstakingly collecting information from countries such as France, the United Kingdom, Japan, Sweden, Germany, Canada, and Finland. Their multicountry empirical analysis revealed the patterns over time quite clearly. "We see the evolution of stock ownership from individuals to intermediaries in many countries, and this trend does match their variations in tax policies," Strebulaev says.

The paper also explains another important phenomenon: the creation of the mutual fund industry. The researchers discovered that as late as 1980, the mutual fund industry in the United States owned less than 4% of all stocks in the nation. Today, it is the major owner of stocks.

Most observers assume that the industry grew to address people's need to diversify their portfolios. "We show, however, that in various countries, mutual funds took off only when the 'defined-benefit' retirement plans were replaced with 'defined-contribution' plans which allow people to choose their own providers," Strebulaev says.

Defined-contribution plans – 401(k)s – were introduced in 1982. Private pension plans were quickly converted into mutual funds, and this is why we see the growth of this industry, the authors explain.



Professor Ilya Strebulaev discovered that up to 70% of all stocks in the United States are kept in tax-deferred plans.

"Nobody looks at this data, even though it's publicly available," Strebulaev says. "The same phenomenon happened in other countries as soon as retirement contribution plans were instituted. In countries where retirement contribution funds did not get instated, mutual funds never took off."

The paper thus has enormous implications for tax policy, and how and where it does — and doesn't — have an impact on people's stock purchasing behavior. "It's unlikely that changes in capital gains taxes had any significant impact on stock values, portfolio decisions, and economic growth, for example," Strebulaev says. "Because a substantial fraction of stocks is held in tax-deferred plans, any temporary changes in tax policy are not likely to affect either people's decisions to trade stocks or stock prices."

The study's findings are not confined to stocks; the same changes happened in bond markets. "Because there are both taxable and taxexempt bonds, the bond market provides an even better test of our explanation," Strebulaev notes.

The fact that diversification may not be the primary factor in explaining the proliferation of financial intermediaries may also provoke questions about the true role of such institutions in the economy. Finally, the findings of the paper suggest that academic research conducted during the past few decades on the long-term effects of taxation on corporate finance and asset prices may need to be re-evaluated.



Sacha Baron Cohen in the role of fictitious Kazakh journalist Borat Sagdiyev speaks in front of the Kazakh Embassy in Washington. Though Cohen's 2006 film made fun of Kazakhstan, it brought a 300% increase in requests for tourism information about the country.

Bad Publicity Can Be Good for Lesser-Known Brands

IN 2009, AFTER SCATHING media reports of cars that could accelerate out of control, Toyota faced recalls, fines, and plunging sales. But bad news isn't always bad for business. After the movie *Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan* made relentless fun of the nation of Kazakhstan, *Hotels. com* reported a 300% increase in requests for information about the country. In another case, a wine described as "redolent of stinky socks" by a prominent website saw its sales increase by 5%.

Negative publicity sometimes can increase sales when a product or company is relatively unknown simply because it stimulates product awareness, according to a study from the Stanford Graduate School of Business that was published in the *Journal of Marketing Research*.

"Most companies are concerned with one of two problems," says Alan Sorensen, associate professor of economics and strategic management and one of the authors of the study. "Either they're trying to figure out how to get the public to think their product is a good one, or they're just trying to get people to know about their product. In some markets, where there are lots of competing products, they're more preoccupied with the latter. In that case, any publicity, positive or negative, turns out to be valuable."

The researchers first studied the effect of negative and positive book reviews on fiction book sales. Positive reviews in the *New York Times* increased sales by 32% to 52%. For books by established authors, negative reviews led to a 15% decrease in sales, but for unknown authors, negative publicity increased their books' sales by 45%.

Follow-up studies affirmed the reason: Even bad reviews drew

attention to works that otherwise would have gone unnoted, and the "negative" impression created by bad reviews diminished over time. After reading the reviews, study participants were asked to state the likelihood they would purchase a book. For well-known books, negative publicity resulted in less likelihood regardless of whether participants were asked right away or after a delay to complete another task. For books by unknown authors, negative publicity did not affect the likelihood of purchase after the delay.

Besides Sorenson, the researchers were **Jonah Berger**, PhD '07, a faculty member at Wharton, and **Scott Rasmussen**, BA '03, a Stanford undergraduate when the research was conducted.

- MARGUERITE RIGOGLIOSO

Defining Goals Broadly Helps Your Chances of Succeeding

WANT TO LOSE WEIGHT in 2011? You have a better chance of pulling it off if you tell yourself, "I'd like to slim down and maybe lose somewhere between 5 and 15 pounds this year" instead of "I'd like to lose 12 pounds by July 4."

In a paper to be published in *Psychological Science*, **Baba Shiv** of the Stanford Graduate School of Business concludes that people are more likely to stay motivated and achieve a goal if it's sketched out in vague terms than if it's set in stone as a rigid or precise plan.

"For one to be successful, one needs to be motivated," says Shiv, the Sanwa Bank, Limited, Professor of Marketing. He is coauthor of the paper "In Praise of Vagueness: Malleability of Vague Information as a Performance Booster" with Himanshu Mishra and Arul Mishra, both of the University of Utah. Presenting information in a vague way — for instance, using numerical ranges or qualitative descriptions — "allows you to sample from the information that's in your favor," Shiv says. By comparison, information presented in a more precise form doesn't let you view it in a rosy light and can be discouraging.

Of course, Shiv isn't saying there's no place for precise information. A pilot needs exact data to monitor a plane's location, direction, and fuel levels, for instance. But information meant to motivate is different, and people seeking motivation need the chance to focus on just the positive. When it comes to motivation, Shiv said, "negative information outweighs positive."

To determine how vague information affects expectations and performance, Shiv and his colleagues told 106 participants that 1 gram of cocoa can improve mental performance. Participants each were given an identical piece of candy but were told that it contained either 1 gram of cocoa or somewhere between 0.5 grams and 1.5 grams of cocoa. Later, on a test of mental acuity, those who had been given the more vague information performed better than the other group. That result suggests that when allowed to imagine they might have eaten more than just the minimum amount of cocoa to boost mental acuity, the participants had higher expectations of performance and were more motivated during the test.

In another experiment, 39 participants were weighed during several weeks for individual scores on a fictional "Holistic Health Index." The ideal score, they were told, was in the 45-55 range. At each weighing, participants in one group were given their exact index score and told that it exceeded the ideal. Those in the second group also were told that they exceeded the ideal, but instead of exact scores they were given a range. By the end of the study, those in the second "vague" group had lost more weight.

The same ideas can apply in business. During performance reviews, for example, a manager could comment in general terms to allow the employee to interpret the feedback in an upbeat way. •

-LOUISE LEE

Know When to Swagger and When to Swish

IN THE BUSINESS WORLD, women who are aggressive, assertive, and confident but who can turn these traits on and off, depending on the social circumstances, get more promotions than either men or other women, according to a recent study.

The research suggests that for women to be successful they must simultaneously present themselves as self-confident and dominant while tempering these qualities with displays of communal characteristics. "Women may have a ways to go, but their ability to be flexible in how they behave is leading to some extraordinary results. Some women are starting to go very high in the managerial ranks using this strategic approach," reports Olivia O'Neill, PhD '05, assistant professor of management at George Mason University. She coauthored an article, "Overcoming the Backlash Effect: Self-Monitoring and Women's Promotions," in the 2011 Journal of Occupational and Organizational Psychology with Charles O'Reilly, the Frank E. Buck Professor of Management at the Stanford Graduate School of Business.

Using comprehensive interview, survey, and observational data from 132 business school graduates over 8 years, the researchers found that women high in "masculine traits" - defined as aggressiveness, assertiveness, and confidence - were also able to "self-monitor" their behavior. "These women were able to be chameleons, to fit into their environment by assessing social situations and adapting their actions accordingly," O'Neill says.

Women high in masculine traits who were high self-monitors received 1.5 times more promotions than masculine-acting men, and about twice as many promotions as feminine-acting men, regardless of whether the men were high or low self-monitors. They also received three times as many promotions as masculine-trait women who were low self-monitors, affirming that masculine behavior alone does not garner success.

"Being able to regulate one's masculine behavior does not simply put women on par with men, it gives them even more of an advantage," O'Neill says. "This shows that for women who do want success at the managerial level, the paths are there."

The study also showed that self-monitoring masculine women received 1.5 times as many promotions as feminine women, regardless of whether those women were high or low self-monitors. "There is no evidence that 'acting like a lady' does anything except make women more well liked," O'Neill says. "Women with ultra-feminine traits, in fact, are still seen as less competent in traditional managerial settings."

Managing so-called masculine traits early in a woman's career can have a significant effect because even small differences in success at the beginning of



The right mix of masculine and feminine traits gives women an advantage.

one's career have large long-term effects. Women now are underrepresented compared to men in the upper ranks of management, but that pattern could be reversed in time, the researchers suggest, if more women adopt the behavior pattern described.

Past studies have found that women wanting to lead groups faced a conundrum: To be successful, they needed to be assertive and confident, but they were sometimes punished for behaving in ways contrary to the feminine stereotype.

An earlier study by O'Neill and O'Reilly using the same data set determined that learned behavior patterns - not biological sex - may be the greatest determinant of workplace success as measured by salary and promotion.



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Faculty Books Explore Pricing, Decision Making

RECENT BOOKS BY GSB FACULTY include the selected works of Nobel laureate **William Sharpe**, a look at communication across academic disciplines by **Myra Strober**, and two books on human "bounded rationality" in politics by **Jonathan Bendor**. A book on corporate governance is due out soon by **David Larcker**.

Sharpe, the STANCO 25 Professor of Finance, Emeritus, shared the 1990 Nobel Memorial Prize in Economic Sciences for his contributions to the theory of price formation for financial assets, especially his "capital assets pricing model." He is editor of *William F. Sharpe: Selected Works*, which collects his related work.

Strober, an economist who is a professor emerita of education and also teaches in the business school, explores under-recognized impediments to cross-disciplinary studies in academia in her book *Interdisciplinary Conversations: Challenging Habits of Thought.* While she believes that interdisciplinary work can increase the pace at which knowledge is created, she writes that the academic reward system and the way experts are trained in disciplines make it difficult to learn to talk to peers from other areas. "Unless participants are open minded and dialogues well structured, the conversations can be boring, confusing, unpleasant, or downright hurtful."

Bendor in *Bounded Rationality and Politics* explores several schools of behavioral economics. One focuses on the mistakes in judgment people make, another emphasizes the effectiveness of simple rules of thumb, and a third emphasizes the interplay between the cognitive constraints of decision makers and the complexity of their tasks. Bendor, who is the Walter and Elise Haas Professor of Political Economics and Organizations, also coauthored another book, *A Behavioral Theory of Elections*, which explores why individuals choose to vote even when there is a greater chance of their being in an accident on the way to the polls than of their single vote affecting the outcome of an election. His coauthors are former GSB professor Daniel Diermeier and two GSB alumni, David A. Siegel, PhD '06, and Michael M. Ting, PhD '99.

Larcker and **Brian Tayan**, MBA '03, have written *Corporate Governance Matters*, an up-to-date reference book on corporate governance issues for board members, officers, and other stakeholders of companies. Larcker, the James Irvin Miller Professor of Accounting, directs Stanford's Corporate Governance Research Program.

INFORMS Honors Srinivasan

MARKETING PROFESSOR V. "Seenu" Srinivasan has been named a Fellow of the Institute for Operations Research and the Management Sciences (INFORMS) "in recognition of outstanding contributions, achievements, and service that have advanced the profession of operations research and the management sciences." He was honored during a November conference in Austin, Texas.

Srinivasan, the Adams Distinguished Professor of Management, Emeritus, is the sixth member of the business school faculty to be named a Fellow of the prestigious organization. Others are **Hau Lee**, **J. Michael Harrison**, **David Montgomery**, **Evan Porteus**, and **Lawrence Wein**. Earlier, Srinivasan was honored by INFORMS for "cumulative



Faculty Study Trip to India

RENEE BOWEN, assistant professor of economics, traded questions and answers with students at the Akanksha Foundation in Pune, India, during a December 2010 study trip by 13 business school faculty members. The foundation, which provides educational opportunities to underprivileged children, is supported by Forbes Marshall, a Pune corporation, where **Farhad Forbes**, Sloan '91, is a director. The faculty visited seven Indian companies, the Delhi Metro, and the Sanskrit Art Center in New Delhi, to build relationships, identify research opportunities, and enhance their global perspectives. Another faculty group made a study trip to China during spring break.

long-term contribution" to the understanding and practice of marketing. He also received the John D.C. Little Award from the organization for best marketing paper of 2008.

O'Reilly Honored for Life's Work

THE 6,000-MEMBER Organizational Behavior Division of the Academy of Management will present its lifetime achievement award in August to **Charles O'Reilly III**, the Frank E. Buck Professor of Management at the Stanford Graduate School of Business.

The division's members are scholars who study individuals and groups within an organizational context. The lifetime achievement award is reserved for scholars who have been outstanding publishers of research and teachers in the field over two decades. In notifying O'Reilly of his selection, division chair Carrie Leana wrote that his research on "communication and decision making, culture, commitment processes, demography, compensation, social control, diversity, and organization architectures has shaped the very way that OB scholars and practitioners look at the impact of social process and incentive mechanism." She also noted his past receipt of teaching awards and said that he was the only organizational scholar to receive the Scholarly Contribution Award multiple times from the academic journal the Administrative Science Quarterly.

O'Reilly, who directs the GSB's Leading Change and Organizational Renewal Executive Program, earned an MBA and PHD from the University of California–Berkeley in the 1970s and joined the GSB faculty in 1993.

Newsmakers

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



Zoe Dunning, MBA '93, joins President Obama as he signs the Don't-Ask, Don't-Tell Repeal Act of 2010. Others attending are, behind from left, Mike Mullen, Chairman of the Joint Chiefs; former Marine Staff Sgt. Eric Alva; Deputy Secretary of Defense William Lynn; then-Speaker of the House Nancy Pelosi; and Rep. Patrick Murphy.

Pioneer Celebrates Don't-Ask Repeal

Retired U.S. Navy Commander **Zoe Dunning**, MBA '93, was at President Obama's side December 22 when he signed the repeal of the Don't-Ask, Don't-Tell policy, thereby allowing gays to serve openly in the armed services.

For 14 years, until her retirement in 2007, Dunning was the only openly gay member of the U.S. military. A graduate of the U.S. Naval Academy with six years of active service, Dunning publicly declared herself a lesbian in 1993, when she was a second-year MBA student and a lieutenant in the U.S. Navy Reserve. After a two-and-a-half-year legal battle, Dunning won the right to stay in the Navy,

where she was promoted twice after she came out.

Asked by CNN to describe what happened at the signing ceremony, Dunning said of the president, "He shook my hand and thanked me for my service, and I thanked him for his leadership on this."

Alums Find Excitement, Opportunities in China

"Any Chinese with a passion for entrepreneurship, the right skills, and love for their motherland would jump at the first opportunity to relocate back to China," said **Joe Chen**, MBA '99.

Chen, founder and CEO of the social networking company Renren, is one of a growing group of Stanford MBAs, some but not all Chinese nationals, who have launched startups in China and have no plans to move back to the States.

TechCrunch interviewed four Beijing-based alumni — Chen; Lu Dong, MBA '04; Robert Hsiung, MBA '08; and Amy Gu, MBA '09 — and found that they chose China for its relatively low costs, large markets, abundant funding, and the sheer excitement of living and working in today's China.

Dong is founder of La Miu, the country's largest online lingerie seller, which reportedly is growing at 300% a year. Hsiung, after founding One Circle, a "private network for the Chinese elite," turned to mobile social apps where people can form select groups to share gossip and photos. And Gu founded an online site, Kaipan, that simulates stock trad-

ing. It later merged with a Chinese financial services firm.

In April, Chen's Renren filed for a widely anticipated IPO. The company's major brand is the Facebook-like Renren.com, one of the largest social networking websites in China.

James Jian Liu, MBA '00, is COO and a director of Renren. David Chao, MBA '93, of the venture capital firm DCM, Renren's largest VC funder, is also a director.

Film Producer Puts Terrorism in Spotlight

"Every time Osama bin Laden or another terrorist has a message to send the world, the media lines up to listen to him. We deserve the opportunity to refute the terrorists' claims," Carie Lemack, MBA '04, told the Boston Globe. Lemack is executive producer of the 2011 Oscar-nominated documentary Killing in the Name.

The 39-minute film follows Ashraf al-Khaled, a Jordanian Muslim whose wedding was attacked by a suicide bomber, as he meets and challenges the assumptions of actual and would-be terrorists. Lemack, whose mother died in the 9/11 attack on the World Trade Cen-



Carie Lemack, MBA '04, at the Academy Awards with Ashraf al-Khaled, the subject of her documentary on terrorism.

TOP PHOTO BY LARRY DOWNING/REUTERS /LANDOV; BOTTOM POTO BY JEFF VESPA/WIREIMAGE

ter, hopes the publicity attending the documentary's nomination will help discourage other such acts. It was in that spirit that the Washington, D.C.-based antiterrorism advocate set off for Hollywood to make the most of the hoopla surrounding the Academy Awards. She is the cofounder of Families of September 11, the group that persuaded Congress to create a commission to investigate the 9/11 attacks.

"We know change is very slow," said al-Khaled, who escorted Lemack down the red carpet before the ceremony. "But when Carie decides to do something, she will do everything until it's accomplished."

Doctor Offers Upgrade to Primary Medical Care

When Dr. **Tom Lee**, MBA '99, began his medical practice, "it was very clear that health care organizations were lacking both the service hospitality mindset of hotels and the operational efficiency you'd see in manufacturing industries," he told the *New York Times*.

In 2005, Lee founded One Medical Group, a boutique primary care practice, to offer both. Patients enroll for an annual fee of \$150 to \$200. Their physicians are able to give them attentive care because they see relatively few each day, and Lee can keep rates down by automating administration wherever possible.

Perhaps best of all, "The people who greet you don't seem frazzled, and there aren't four people sneezing on you," said Benchmark Capital general partner **Bruce Dunlevie**, MBA '84. Thanks in part to an infusion of venture capital, One Medical now has offices in San Francisco and New York.

Lee is best known as a cofounder of the online reference site Epocrates, according to the *Times*. Lee and his classmates **Jeffrey Tangney** and **Richard Fiedotin** founded the popular physicians' reference program in 1998. It went public this year, raising \$85.5 million.

Two Alums to Lead Major Business Schools

Beginning this fall, **Alison Davis- Blake**, PhD'86, will become dean of the Ross School of Business at the



Dr. Tom Lee, MBA '99, adds hospitality services to medical practice.

University of Michigan, and Christoph Loch, PhD '92, will become director of Judge Business School at the University of Cambridge.

Davis-Blake has been dean for five years at the University of Minnesota's Carlson School of Management, where she expanded fundraising, undergraduate enrollment, and faculty and research infrastructure, according to statements in the *Minneapolis Star Tribune*.

Loch has been a professor of technology management at INSEAD since 1999. He is the former dean of the school's doctoral program and current director of its Israel Research Centre. Shortly after the announcement of his new position, Loch flew to Cambridge for a short visit.

Too Close for Comfort

On a sunny Saturday morning in Tucson, Ariz., Carol and **Ken Dorushka**, Sloan '90, dropped by a "Congress at Your Corner" event outside their local Safeway to thank their representative, Gabrielle Giffords, for her efforts on solar power.

Eighth in line, Dorushka thought he heard firecrackers. But a gunman had shot Giffords and was moving down the line toward them, firing randomly. Dorushka threw Carol to the ground, covering her with his body, and protected her head with his right arm. The gunman shot Dorushka in

that arm and moved on.

"I felt the pain and I kept her down," Dorushka said. "And I just waited for the next one because I really thought that was going to be it — that I was on my way out."

Six people died in the Jan. 8 attack. Carol was untouched. Dorushka was treated and released. In March he told the *Arizona Daily Star* that he still had mobility problems and was bothered when seeing people carrying guns. "I saw a guy in the grocery store walking around with a gun on his hip, and that disturbed me tremendously. I was in a restaurant and saw someone with a sidearm strapped on."

Giffords, who remains hospitalized, succeeded **Jim Kolbe**,

MBA '67, who represented Arizona's 8th Congressional district for 22 years. After the attack, Kolbe was named to the inaugural board of the National Institute for Civil Discourse, created by the University of Arizona.

Vice Presidents at GM

Mary Barra's appointment this year as General Motors' senior vice president for global product development makes her responsible for 36,000 engineers, designers, and planners worldwide. It also makes her the top female executive at the male-dominated company.

Her appointment caused more than a few automotive industry observers to scratch their heads. After all, Barra, MBA '90, had most recently been vice president for global human resources, of all things, and brings to her new position a background in manufacturing, not design.

But that may not be such a bad thing, Don Runkle, a retired GM executive and chief engineer, told *Newsweek*. Barra's manufacturing experience may bring practicality into "a realm formerly dominated by gut-feel designers," and choosing her may signal that "how vehicles are built will be more important."

Barra is not the only Stanford alumna near the top at GM. Shanghai-based Susan Docherty, Sloan '04, has been the company's vice president for international operations sales, marketing, and aftersales since June 2010, a year in which GM became the top-selling automobile brand in China.



As General Motor's senior vice president for global product development, Mary Barra, MBA '90, is responsible for 36,000 employees.

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by Jim March and a group of his Scandinavian colleagues in 1988 and still thrives in the basement of the School of Education. The Center for Work, Technology, and Organization at the School of Engineering hosts regular seminars for organizational scholars across campus.

Steve Barley, the engineering school's Richard W. Weiland Professor who codirects the center, says that absolutely as much good work is happening on campus today as in earlier decades, though the new theories do not have the same star power as the old ones.

"From time to time there is something that takes off in a really big way," he said of those old theories. "What happened here," he added, "shaped the field."

What are the lessons to be drawn from the story of the Stanford school?

Mike Lounsbury, a professor at the University of Alberta School of Business who edits the series *Research in the Sociology of Organizations*, said he commissioned the volume on Stanford's organizational theory renaissance because he believes there are important truths to be documented.

As ingredients in the organizational community's success, he points to a unique constellation of incredible scholars and administrative support. Others emphasize the high research standards, the federal grants, the campus-wide conversations, and the friendships built at Asilomar. Many agree that one of the key events was the arrival on campus of a young sociology professor in 1959 around Christmastime.

"It's often forgotten," said Ventresca of Oxford University. "These kinds of things don't just happen. Someone architects them."

GSB's Organization Research Roster

Business School participants in Stanford's Organizations Research Training Program, 1972–1989, and their GSB degrees

FACULTY

James N. Baron Jonathan Bendor Robert A. Burgelman Roberto Fernandez Francine Gordon Thomas W. Harrell Pamela R. Haunschild Thomas R. Hofstedt, PhD '70 Roderick Kramer Harold J. Leavitt James G. March Joanne Martin James R. Miller III William G. Ouchi, MBA '67 Donald A. Palmer Jeffrey Pfeffer, PhD '72 Joel Podolny Jerry I. Porras James A. Robins J. Serge Taylor Eugene J. Webb (Now on GSB faculty: Michael Hannan, then sociology; and Condoleezza Rice, then

political science)

STUDENTS

Robert Bies, PhD '82 Michael Boehm, PhD class of '87 Gerald F. Davis, PhD '91 Alison Davis-Blake, PhD '86 Kathleen Eisenhardt, PhD '82 Philip C. Fisher, PhD '79 Joseph Harder, PhD '89 Reuben T. Harris, PhD '75 Alfred M. Jaeger, MBA '76, PhD '80 Stephen Lee Jerrell, PhD '78 Jerry B. Johnson, РнD '81 Alice L. Kaplan, MBA '74, PhD '79 Robert LeDuc, MBA '73, PhD '75 Debra Meverson, PhD '89 Anne S. Miner, PHD '85 Rodney B. Plimpton, PhD '76 Melanie E. Powers, PhD '89 Raymond Price, PhD '82 Caren Siehl, PhD '84 Sim Sitkin, PhD '86 Suzanne Stout, PhD '93 Alan Wilkins, PhD '79 Ronald R. Williams, PhD class of '73 (Glenn R. Carroll, PHD '82 in sociology; now a GSB faculty member)



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