Management Matters

Field experiment in India provides evidence

Student study trips: Journeys to aha moments

Social Innovation Fellowship helps alumnus tackle high school inequities



STANFORD BUSINESS

A Magazine for Alumni/ae of the Stanford University Graduate School of Business Winter 2010-11 • Volume 79, Number 1



ON THE COVER

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A Social Innovation Fellow recruits potential achievers who are often overlooked for advanced placement courses. By NICOLE ELY



On a study trip to Scandinavia last spring, these MBA students pose with Tomás Saraceno's floor-to-ceiling model of a Black Widow spider web in the main gallery of Bonniers Konsthal in Stockholm.

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ON THE COVER: Illustration by Paul Wearing

High School Confidence Builders

IN THE YEAR of record stomachaches, it didn't matter whether Mother made meat loaf or chicken for Sunday dinner. Immediately after, I would start thinking about returning to Grandma's house in town, where I had to stay for high school. My stomach would hurt. Grandma was OK, but I hated that high school where I lacked not only old friends but also the right clothes and words to make new ones.

In the April snowmelt when my spirits had lifted slightly, a note from the girls' counselor set my stomach on fire again. Mrs. Spiering was a stern-looking woman who chastised girls for kissing in hallways or passing notes in classrooms. I had nobody to kiss or pass notes to, so I was perplexed by her summons.

Peering at me through her outdated wire-rim glasses, she quickly got to business: "I've looked at your grades, your tests scores, and the classes you signed up for next year," she said. "When you go to college, you will need more science preparation." She scratched out my sophomore class



choices and entered hers.

Before I could tell my parents, Walter Cronkite was reporting on the failed Bay of Pigs invasion. We Americans were reminded that the Russians had missiles and Sputnik, and that our country needed more scientists. As unenthused as I was about having to go away to yet another school, my imagination started running ahead: I could see myself, a girl no less, in a white coat building rocket ships. I felt both pleased and scared of the image, and I don't recall stomachaches after that.

On page 13 of this issue, you will meet **Reid Saaris**, MBA '10, who, with help from the GSB's Center for Social Innovation, is building modern

versions of Mrs. Spiering. When I first read **Nicole Ely**'s story about Reid's chutzpah — his daring to come up with his own approach to No Child Left Behind — I wanted to cheer him and shake his hand to thank him. He was my stand-in for Mrs. Spiering, who, I regret, died before I matured enough to thank her.

Eric Sevareid, a TV journalist of my youth, wrote in his autobiography: "The high school period, in America anyway, is surely the worst period in a man's life — the most awkward, uncomfortable, inept, and embarrassing of all times." He was speaking about public schools of the 1920s; I am speaking about those of the 1960s; and Reid Saaris is dealing with the same old problems of juvenile naïveté and a rote school system in 2011. The system has some good points, but it works against the teachers, Sevareid wrote, from whom it demands an "exhausting grind" of knowing too many kids, "all of whom must be treated exactly alike."

The U.S. Supreme Court struck down separate-but-equal schools as inherently unequal in 1954. I reported with enthusiasm on the resulting desegregation of several urban school systems in the 1970s and '80s. But today, it seems school inequalities are back in spades. Most U.S. high schools have too few Mrs. Spierings to figure out how to sincerely assure every teen she is special in some way that is worth more investment.

In this issue, we have more stories about U.S. educational reformers. On page 12, you can read about alumni entrepreneurs trying to improve high school curricular materials with a for-profit internet model. On page 10, read about a business school professor experimenting with learning in a virtual world, and on page 18, about the new global study-trip curricula at the GSB. On page 24, we describe on-the-job education for factory managers in India. These are wonderful examples of how the GSB community gives back education to others, but I am especially proud of the school's Center for Social Innovation for giving Saaris an \$80,000 fellowship to scale up his high school revolution. Perhaps someday, with his guidance, I can repay my debt to Alice Spiering.



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PUBLISHER Cathy Castillo EDITOR Kathleen O'Toole

CLASS NOTES EDITOR Christa Amsden

ASSOCIATE EDITOR Arthur Patterson

CONTENT/LAYOUT MANAGER Rick Nobles

ONLINE CONTENT MANAGER Patrick Keating

ART DIRECTION & DESIGN Steven Powell

CONTRIBUTORS

Nicole Ely; Robert D. Hof; Theresa Johnston; Maria Shao; Bill Snyder; Gale Sperry; Margaret Steen; Janet Zich; and scores of class secretary columnists

COPYEDITING Heidi Beck Kate Kimelman Malinda Petersen

PREPRESS AND PRINTING Prepress Assembly, San Francisco Allen Press, Lawrence, Kan.

CHANGE OF ADDRESS

PHONE: 650.724.4949; FAX: 650.723.5151; EMAIL: alumni_admin@gsb.stanford.edu

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

Innovation Is Key to Expanding Our Reach

THE GSB IS BLESSED with a set of extraordinary strategic assets: world-class faculty and staff, students of exceptional potential, a leading management education curriculum, state-of-the-art academic and residential facilities to house our programs, and a highly engaged and committed alumni base. At Stanford, we have access to leading schools of medicine, law, education, engineering, earth sciences, and humanities and sciences, all within walking distance of the GSB.

Our strategy with respect to those assets must be two-pronged. On the one hand we must ensure that we maintain that strength. For example, we must ensure that we hire the best faculty and create around them a vibrant intellectual atmosphere; and we must ensure that we continue to innovate in our programs so that they continuously improve. We are committed to maintaining the intimate strategic scale of our flagship MBA program. We believe that the program size is crucial to facilitating the process of personal transformation that I wrote about in my previous dean's column and the 2010 State of the School letter.

But, on the other hand, if we truly are to advance our mission we must also use our strategic assets as a springboard for ever greater impact: We must take the knowledge we create and what we know about how best to impart that knowledge and enable as many highpotential current and future leaders of managed organizations as we can to lead those organizations more effectively.

We must change more lives, so that they can change more organizations that change the world in positive ways. We must do this both because it is our mission and because doing so will strengthen the GSB's position as a leader in management education. Internally we refer to this strategy as "strengthen our core, expand our reach."

We will look for new and different ways to expand our reach ranging from new programs to experiments with distance learning. A great example of this is the Program in Innovation and Entrepreneurship (PRIE) that we launched in January. A certificate program running in the evening over 20 weeks, it provides the opportunity for a mix of students from Stanford's six other schools and working scientists, engineers, and other professionals to gain exposure to business and entrepreneurship fundamentals.

This program builds on the successful Summer Institute for Entrepreneurship, an intensive four-week summer program for nonbusiness graduate students. The new program's format is distinctive: It combines graduate students and working professionals, enabling them to learn from one another; and, crucially, it will enable collaboration with our MBA and Sloan students, providing cross-pollination between business students and those from other disciplines.

PRIE will add to the intellectual activity that takes place in the Knight Management Center in the evenings. Activities such as this, together with extended food service hours, will draw our students from the Schwab Residential Center and other students in graduate housing across Serra Street, ensuring a vibrant atmosphere in Knight at night.



Seeking Solutions, Educating Leaders

GSB goal for faculty support	\$95 million	
Gifts still needed	\$26 million	
Every gift to the GSB counts toward The Stanford Challenge.		
For more information, see www.gsb.stanford.edu/gi	ving/faculty	



Another example of efforts to expand our reach is our investigation into educational technologies that will enhance our global connections. For instance, last autumn quarter, Haim Mendelson, professor of electronic commerce, business, and management, and lecturer Steve Ciesinski experimented with the online environment Second Life in a one-week MBA class on how to prepare a business plan. Students met online in a virtual classroom - using computer-generated avatars as facsimiles of themselves - to hammer out a business plan and present it to a group of entrepreneurs and venture capitalists. [See story, page 10.] We plan to try other technologies this year.

We also are seeking new ways to take the GSB to the world. For instance, during winter break we had a coordinated effort to take the GSB to India with two student study trips, a student service learning trip, one faculty study trip, and Executive Education's Executive Circle Summit. During the latter, marketing professors Jennifer Aaker and Baba Shiv and I hosted a day-long symposium on innovations in branding.

The knowledge and relationships that we build from such interactions will further strengthen our core programs. Moreover, from efforts such as these, we hope that the GSB will reach even more leaders, equipping them with the knowledge, capabilities, and inspiration to change the world.

Noteworthy

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

Tree Sitter, Tea Party Share the Same Muse

When **Ori Brafman**, MBA '01, met **Rod Beckstrom**, MBA '87, at a fundraiser to support treedwelling environmentalist Julia "Butterfly" Hill, neither imagined they would write a book that would become the doctrine of the Tea Party.

"It's an interesting world," Brafman said. "Sometimes, you write something and you're not sure where it's going to end up."

Their 2006 book, *The Starfish* and the Spider, which champions the strength and flexibility of autonomous organizations, apparently ended up on the desk of some Tea Party organizers, according to *Politico*. The authors draw the analogy that most organizations, from the government to business, are like spiders — when their heads are severed, they die. In contrast, starfish don't have heads. And if a starfish's limb is severed, it can regenerate.

Beckstrom and Brafman write that more organizations should strive to be like a starfish; that is, without a top-down structure that could lead to inflexibility and possible death. For Tea Party members, this echoes their desires for less government involvement and more individualism. "It makes perfectly good sense," Beckstrom said of the Tea Party adopting the book. "Essentially, it's a guide that tells how to foster decentralized movements."

Beckstrom and Brafman noticed the power of leaderless organizations after 9/11, when the U.S. military was having problems stifling al-Qaida. At that time, Beckstrom explained, al-Qaida was very decentralized, making it easier to remobilize after attacks.

Later on, he and Brafman decided to form an autonomous network of their own called Global Peace Networks. Composed of CEOs from major



Chilean Mining Chief Delivers in Crisis

The rescue of 33 miners trapped underground in Chile for 69 days was, arguably, the feel-good story of 2010, and the person given most credit was the minister of mining, Laurence Golborne, SEP '96, who oversaw the operation. Golborne, shown addressing reporters Oct. 12, the day before the rescue, and in the rescue capsule Sept. 25, shrugged off the praise. "No soy un héroe," he said.

companies, the network was involved in peace-making efforts in several countries, including India and Pakistan.

So, how can an organization be so successful with very limited traditional leadership? Decentralized authority can allow for rapid change and flexibility because the people at the bottom don't have to wait for orders from the top to act, the authors



write. Instead, individuals take on responsibility and authority.

"Historically, we've seen these types of movements change the world," Brafman said, referring to grassroots movements such as the suffragists and the abolitionists in the United States. And with the advent of social media, organizing people can be a lot more efficient.

But a key component to the success of these organizations

lies with their founders. As the book says, it is important to remain a catalyst and spark a movement but not take over.

"No one owns the Tea Party brand," Beckstrom explained. Although many Tea Party members are united by their ideals, they do not share one common goal or wish to elect a single candidate. As the Tea Party gains traction in the United States, and with similar parties sprouting up in Britain, the Netherlands, Japan, China, and Norway, such organizations could shape the outcomes of elections all over the world.

Although Beckstrom is the president and CEO of the Internet Corporation for Assigned Names and Numbers, he regularly speaks at industry conferences about the glory of autonomous organizations. And Brafman is working with the U.S. military to adopt some starfish practices. The book has been translated into 17 languages.

"I feel like a tourist in my own life," Brafman said of all the publicity. "One week I'm at Burning Man, another week I'm working with the military, and the Tea Party is a fan of Starfish. I don't know what'll happen next week."

Acumen Raises Kenya's Sanitation Expectations

Five years ago, public toilets in Nairobi, Kenya, were neither sanitary nor safe. "These toilets were places where gangs congregated," said Amon Anderson, a portfolio associate in the Acumen Fund's Nairobi office. "Beyond that, they were not the sort of place anybody would want to be from a sanitation perspective."

Today, some Kenyans have another option: toilets managed by uniformed staff, decorated with bright colors, and surrounded by attractive landscaping. About 600,000 times per month, people pay 5 Kenyan shillings (about 6 cents) to use the 27 multiple-stall toilets at locations where they also can buy a snack or shoeshine. The company that built them, Ecotact, had \$15,000 in revenue in 2008 when the Acumen Fund decided to lend it \$757.000.

DND:

HERITAGE

THE GLOBAL

PHOTO COURTESY OF '

would have made them this loan without our source of capital or our business model," said Brian Trelstad, MBA '99, chief investment officer of Acumen Fund. Founded by Jacqueline Novogratz, MBA'91, Acumen invests for potential social impact as well as financial return, Trelstad said.

The toilet project promises to be a sustainable way to provide better public health, especially in slum areas where people have no home toilets. That fits with Acumen's goals to improve the lives of the world's poorest people. In this case, it hopes to serve as "a model for the world to better understand how to deliver sanitation services." Trelstad said. "We don't like to do a lot of 'me-too' businesses. We like to do businesses that have the capacity to show the world that this is possible."

The toilets in Nairobi's business district are doing well financially, he said. For those in poor residential areas, however, pricing is tricky. The toilets are serving as "almost household-level infrastructure," he said, and poor families can't necessarily afford to pay for each use.

The broader impact of Ecotact's toilets is that they raise the population's expectations. "It's changing the way people think about sanitation," Anderson said. "It has forced many other facilities to raise their game and create a more positive sanitation experience as well."

Novogratz added, "Ecotact is exactly the kind of investment that Acumen Fund's patient capital approach is meant for."

Global Heritage Fund Saves Historic Sites

Ur. Iraq. is the birthplace of Abraham and the site of a famous ziggurat. It is also one of hundreds of historically significant sites

For the Record

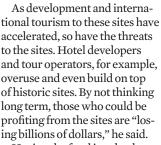
MBA Class of 2012 Profile

IVIDA UIASS (JL		
GENERAL			
Total Applications	7,204		
New Students	389		
Women	39%		
International (includes permanent residents of U.S.)	37%		
U.S. Minority	23%		
Advanced Degree Holders	15%		
YEARS OF WORK EXPERIENCE			
Range	0–13		
Median	4		
SCHOOL/GEOGRAPHIC REPRESENTATION			
U.S. Institutions	72		
Non-U.S. Institutions	82		
Countries (including the U.S.)) 53		

Humanities/Social Sciences 50% Engineering/Math/ 31% Natural Sciences **Business** 17% **TOP 5 INDUSTRIES** Consumer Products

UNDERGRADUATE MAJORS

5%	(manufacturing & services)	32%
	· · · · · · · · · · · · · · · · · · ·	52%
	Investment Management ¹	26%
-13	Consulting	20%
4	Nonprofit/Government	8%
	High-tech (manufacturing & services)	8%
72	¹ e.g., investment banking, hedge funds, private equity, venture capital.	
82	SOURCE: MBA Admissions Office	
53	as of September 2010.	



Having the fund involved, as it is in about a dozen sites worldwide, helps locals recognize that the site has value. "Many times the sites have lost their meaning to the local populations."

The fund uses a structured, six-year process to help preserve sites. This can include some restoration, tearing down modern structures that are encroaching on the site, and strengthening the historic structures. In Ur, the fund is working with Iraqi authorities to survey the site and create a conservation plan.

Eventually the primary responsibility for conservation shifts to the community, with the fund playing an advisory role. Community members "are the guardians and stewards of the sites," Morgan said. "They're going to be there 1,000 years from now."

Helping Kids, Families **Recover from Cancer**

The best result for the children who are treated for brain cancer at New York University's Langone Medical Center is, of course, that they go home. But the children and their families



Jeff Morgan, Sloan '98, cofounder of the Global Heritage Fund, in the Mirador Archaeological and Wildlife Area in Guatemala, described by experts as the cradle of Mayan civilization.

threatened by war, development, or mass tourism.

"Major archeological sites are being modernized and encroached upon and are disappearing," said Jeff Morgan, Sloan '98, executive director of Global Heritage Fund. Morgan cofounded the fund in 2002 to help preserve heritage sites, primarily in developing countries.

"These countries are very poor, and cultural heritage is a very low priority compared to feeding the population," Morgan said.

Global Heritage Fund helps people living near historic sites do both.

Noteworthy

don't easily slip back into their old lives. The Making Headway Foundation helps families adjust by providing psychological counseling and educational consultants.

"Every one of these children who goes through chemotherapy and radiation ends up with learning disabilities," said **Edward Manley**, MBA'64, a former pharmaceuticals company executive who cofounded the foundation in 1996 with his wife, Maya, and Clint Greenbaum. "They have so much trouble in school once they're back home."

The foundation also makes life more pleasant during treatment: Children are offered massages and yoga, playroom snacks, and art therapy. The group funds clinical trials with its \$1 million annual budget, and it helps with funeral expenses for children who don't survive.

The foundation has special events for families each year — including siblings. "The sick child gets all the attention, and the siblings are neglected. They can feel guilty, they can feel angry," Manley said. "It's so important that they are included in the events."

The foundation grew out of the Manley family's experience when one of their daughters was diagnosed with a brain tumor in 1982 at age 13. She recovered, but Manley said they learned that having an ill child is "a big disruption that families are really not prepared to deal with."

Happiness Boosts Zappos' Bottom Line

For Zappos CEO Tony Hsieh, happiness is "a business model." His goal is to keep his employees, customers, and vendors happy, even if it might not seem to make the best business sense, because his strategy leads to profits in the end.

The online shoe and apparel retailer surprises VIP customers with free overnight shipping upgrades. Its call center employees are so friendly that customers have been known to talk with them for hours.



Zappos CEO Tony Hsieh speaks to GSB students about maximizing customer experience, not company efficiency.

"We're not trying to maximize efficiency. We're trying to maximize the customer experience," Hsieh told MBA students in October during an elective class, Designing Happiness, taught by marketing Professor Jennifer Aaker. Hsieh. who has 1.7 million followers on Twitter, also authored a 2010 book called Delivering Happiness: A Path to Profits, Passion, and Purpose. "Our whole belief is that if you get the company culture right, most of the other stuff – like delivering great service or building a long-term, enduring brand - will just happen naturally."

Although internet giant Amazon.com acquired Zappos in 2009, a year after Zappos' sales topped \$1 billion, the company has retained its unique culture, Hsieh said. Key to the culture is finding new employees with the skills needed to do specific jobs but also with a willingness to spend some time initially working in the corporate call center accepting orders or in the warehouse packing shipments. To weed out workers who aren't truly committed, Zappos offers \$2,000 to \$3,000 to people who voluntarily quit during their first months on the job.

How Do You Say 'Friend Me' in Swahili?

How do you get a popular website such as Facebook translated into, say, French? You could hire a team of translators and have them painstakingly go through the site. Or you could ask thousands of users to do it. That's the path Facebook took, translating the site into French in 24 hours.

Even enthusiastic users don't necessarily want to go to a lot of extra work to provide free translations, though. To make it easy, **Javier Olivan**, MBA '07, led the launch of a system that would

For the Record Employment Report: MBA Class of 2010

INDUSTRY	Percentage of Class	Median Base Salary	Median Signing Bonus
Consulting	29	\$ 120,000	\$ 20,000
Internet Services/E-Commerce	12	\$ 110,000	\$ 15,000
Private Equity/LBO	12	\$ 150,000	\$ 20,000
Consumer Products	6	\$100,000	\$ 10,000
Energy/Clean Tech	5	\$ 102,000	\$ 20,000
Investment Banking	5	\$100,000	\$ 40,000
Investment Management	5	\$ 150,000	\$ 50,000
Hedge Funds	4	\$ 125,000	\$ 20,000
Consumer Electronics/Hardware	3	\$ 124,000	\$ 15,000
Health Care	3	\$ 97,840	\$ 20,000
Media/Entertainment	3	\$ 117,000	NA
Finance/Other	2	\$ 85,000	\$ 20,000
Nonprofit	2	\$ 80,000	NA
Other Services	2	\$ 115,000	NA
Software	2	\$ 120,000	NA
Venture Capital	2	\$ 120,000	NA

Total does not equal 100% because of rounding.

TOP FUNCTIONS: Management Consultant, 29%; Finance – Private Equity Analyst, 12%; Business Development, 11%; Brand/Product/Marketing Manager, 9%; Marketing – Other, 6%

BASE SALARY: median: \$120,000 (range: \$40,000-\$330,000) SIGNING BONUS: median: \$20,000 (range: \$2,500-\$100,000)

OTHER GUARANTEED COMPENSATION: median: \$25,000 (range: \$9,000-\$300,000)

SOURCE: Stanford Business School MBA Career Management Center For further details: www.gsb.stanford.edu/cmc/reports

View from the Top speakers at BizOnline.Stanford.edu/Zappos

allow users to translate while they were using Facebook.

See Tony Hsieh and other

Most of the people who worked on the project did so for fun, out of a desire to be "the person who decided how 'wall' was translated in their language," said Olivan, now Facebook's director of international growth. While at Stanford, he started a social network in four languages, experience that led to his role at Facebook.

When a particular phrase had been translated more than once, users could vote on which translation they liked best. "It was a democratic process," Olivan said. Creative uses of words especially generated a lot of discussion. "People still discuss 'like' and 'poke,'" he said.

These translators helped Facebook meet its goal of being available in "any language that anyone would want, not only the top 10 languages." Among the more than 70 languages is



The Bells Heard Coast to Coast

Students, faculty, and staff led by Dean Garth Saloner and NYSE Euronext CEO Duncan Niederauer (in hat) ring bells to close the December 2 session of the New York Stock Exchange during a live satellite feed from the Stanford campus. Niederauer was at the business school as part of the View from the Top speaker series. He also spoke at the Stanford Institute for Economic Policy Research.

an Arabic version, which reads from right to left. There is more than one version of some languages, since the Spanish spoken in Spain is different from, for example, the Spanish spoken in Colombia. The site is even available in Latin.

Now most of the translation work is finished, though the community of translators is still active whenever a new feature is introduced. Olivan's job has shifted to the market strategy for Facebook's international markets. His current focus is countries such as Russia, Japan, and Korea, where "we're smaller but growing fast."

Hello and Goodbye in Alumni Relations

Since November, members of the Graduate School of Business community have been welcoming Stanford graduate **Raphe Beck** as the new director of alumni relations. He succeeds **Lynne Reynolds,** who retired after 33 years at the business school, 20 of which she spent as the director of alumni relations. The director is responsible for organizing and overseeing reunions and other programming for the school's alumni.

Beck has been on the staff of

the university-wide Stanford Alumni Association for nearly 10 vears, most recently as director of alumni communities. A 1992 graduate of Stanford, he served on that association's board of directors from 1998 to 2001. Beck was an early member of Teach For America and taught high school in rural North Carolina. He then worked as a screenwriter and has written projects for Oliver Stone, Disney, the Muppets, and DreamWorks Animation. He was a leader of the Stanford in Entertainment alumni club in Los Angeles and still volunteers with the Bay Area chapter of that group while also pursuing an MBA at UC-Berkeley's Haas School of Business. In his new role, he reports to Sharon Marine, associate dean for external relations for the school.

Reynolds, who knows many GSB alumni well, including her husband, **Tony**, MBA '52, first came to the school in 1977 as a research assistant and then spent a decade planning and executing GSB events around the world before she was named to oversee all alumni relations for the school. In that role, she greatly increased attendance at reunions, and added a spring reunion for younger classes and some residential reunions for special anniversary years. With advice from the board of the Stanford Business School Alumni Association, she also created more volunteer opportunities and educational programs for alumni.

"One of the greatest things she did as director was to lure and commit, with her charm and friendliness, many brilliant alumni to volunteer for the SBSAA," said **Martin Urrutia**, MBA '86, who was president of



Raphe Beck



Lynne Reynolds

the school's alumni board in 2001. "For this reason, the alumni have a very deep feeling of belonging," he said from his office in Mexico City as he worked on planning the 25thyear reunion for his class.

Reynolds' "infectious enthusiasm" kept others' stress in check during reunion weekends, said **Peter R. Mondavi Jr.**, MBA '93, who also welcomed Beck. "As the GSB and the university move toward more interdisciplinary cooperation, his relationships will be invaluable."

Venture Fund Grows Apps into Companies

Less than a year after the first iPhone hit the airwaves in 2007, sparking a rush to supply an insatiable market with apps computer programs for users of the mobile device — venture capital veterans Kleiner Perkins Caufield & Byers launched a \$100 million fund to develop even more. In 2010 the firm poured another \$100 million into the effort. In charge of the purse strings is **Matt Murphy**, MBA '96.

The potential earnings and likelihood of these developers turning an idea into a company is what interests him. "I view these companies as similar to those that

Noteworthy

grew up on the fixed internet," Murphy said. So far, 16 app developers are in the iFund, with early successes such as Shazam and Flipboard popular among iPhone, iPad, and iPod Touch users.

Kleiner Perkins' strong working relationship with Apple Computer, the iPhone maker, doesn't hurt. In fact, Apple recommended the Shazam app to Murphy and the iFund. Shazam lets users identify songs by recording several seconds and checking the recording against a database that quickly provides a name and artist.

Murphy guides the startups through setting up a business and promotes sharing of information with other developers in the iFund. "A lot of these apps move from a single-user, specific-task utility into something more immersive that is used several times a day," he said, explaining how communities crop up around single-purpose applications. In the case of Shazam, the service has added recommendations and social referrals.

Murphy's iFund tends to invest primarily in apps for Apple devices, especially because of the strong return on investment and Kleiner's relationship with Apple. Competition from Google's Android mobile platform, however, is changing the landscape.

Seminar Takes Flight in Virtual Classroom

More than a dozen Stanford MBA students briefly left the brick and mortar of traditional classrooms in September for a virtual world where they could communicate through multiple channels and fly. Yes, fly. During the one-week seminar, students met online in a virtual classroom — using computer-generated avatars as facsimiles of themselves — to hammer out a business plan and present it to a group of entrepreneurs and venture capitalists.

"We chose a challenging target to see what it's like," said **Haim Mendelson**, the Kleiner Perkins Caufield & Byers Professor of Electronic Business



Deepa Gangwani, MBA '04, wants to organize rag pickers in India and help them become entrepreneurs who convert garbage into fuel.

and Commerce, and Management, who noted that a business plan requires intensive human interaction, often a drawback of traditional distance-learning methods. To meet that challenge, Mendelson and lecturer **Steve Ciesinski** turned to Second Life, an online environment for meeting people and sharing knowledge that simulates real people, markets, places, and issues.

Students used PCs to sit in on lectures, participate in discussions, and present material. They were divided into two teams that worked on plans for selling customizable sneakers or electric bicycles in the United States, and their avatars ranged from those resembling typical grad students to those with wings.

"Traditionally, students raise their hand, make a comment, and discussion ensues," Mendelson said. "Using Second Life, students could communicate in parallel, whether that involved their actual voice or chats that were one on one, within their project team, with the instructor, with whomever was in their neighborhood, or all those scenarios simultaneously." The two teams presented their business plans



Haim Mendelson

in the flesh to venture capitalists and the entrepreneurs who had come up with the original concepts for the shoes and bicycles.

The net effect isn't yet clear to Mendelson, who believes that the forum increased productivity in some areas and reduced it in others. Some students welcomed the technology, and others said the learning curve for Second Life was steep.

"Looking forward, you could do things in this environment that would be impossible in a traditional classroom," he said. Take the business plan for the customizable sneakers. The product could be designed and "manufactured" in Second Life and then distributed and sold through the virtual world's existing stores. letting the online market test the demand at different prices. "There's a lot we can learn from the buying behavior of people in Second Life, especially for products that capitalize on selfexpression," he said. "Although there are differences between the real world and the virtual world."

"For now it's too early to tell what the Graduate School of Business will do with this approach," Mendelson said. "But we are already experimenting with a variety of distance-learning technologies."

Turning Trash Pickers into Entrepreneurs

Desperately poor women pick through trash with their bare hands in parts of India to earn money to support their families. **Deepa Gangwani**, MBA '04, wants to turn these women into entrepreneurs who convert biodegradable waste, plastics, and other forms of garbage into fuel.

To this end she founded Together as One, a social enterprise that helps connect nongovernmental organizations and other groups that work with the trash collectors to the technology, expertise, capital, and services that will allow the pickers to become entrepreneurs. Social venture fund Echoing Green bought into her vision by awarding Gangwani a two-year fellowship that will provide initial funding and technical support.

Gangwani hopes to improve both working conditions and earnings for the women, and more. "The process will transform the waste-handling occupation into energy entrepreneurship," she said, "thereby enhancing the community perception of such workers as providers of an essential energy service."

Social Innovation Journal Has New Home

Eight years ago, the Graduate School of Business' Center for Social Innovation launched an academic-trade journal to highlight cross-sector solutions to social problems. Now the quarterly *Stanford Social Innovation Review* has moved to a new home: the university's Center on Philanthropy and Civil Society in the School of Humanities and Sciences.

The Center for Social Innovation is not moving and continues research and teaching in this field, including MBA electives on sustainability and corporate social responsibility. It also will continue to invest in programs, such as the Social Innovation Fellows, that prepare participants for careers in the field. (*See story, page 13.*)

The journal has grown from an idea to an award-winning publication with a circulation of 13,000 academics and practitioners. Recently it was honored with awards from two publishing organizations for design and overall excellence.

"We are proud to see the venture we seeded embraced by the larger university, where it can expand and flourish," said **Garth Saloner**, GSB dean. •

Reading List

Book Reviews from the Classroom

September seminars and compressed-course electives offered during the autumn quarter give faculty and students a chance to explore varied subjects. Here are some of the books and software faculty use in these courses and also a brief explanation of why you might enjoy these materials.

Portfolios of the Poor: How the World's Poor Live on \$2 a Day

by Daryl Collins, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven

"The authors interviewed poor families in South Africa, India, and Bangladesh approximately every two weeks, completing diaries that tracked all of their financial transactions. This simple approach generates a number of important insights. The authors show convincingly that such behaviors are sensible given the constraints but ultimately contribute to the persistence of poverty."

-Jesper Sørensen, instructor, Poverty, Entrepreneurship, and Development

The How of Happiness: A Scientific Approach to Getting The Life You Want by Sonja Lyubomirsky;

Stumbling on Happiness by Daniel Todd Gilbert

"The How of Happiness reviews what we have learned about the antecedents of happiness and how to use that knowledge personally. Another book, Daniel Gilbert's *Stumbling on Happiness* provides an equally insightful exploration of the mistakes people make when pursuing happiness. It turns out many people are not very good at forecasting what it is that will improve their subjective well-being."

-Roderick Kramer, instructor, Lives of Consequence

ExtendSim simlulation software

"I have used ExtendSim for the last 10 years or so in both modeling and operations core courses at the GSB. As a discrete-event simulation tool, it allows us to explore business processes subject to 'queuing effects' for which no purely mathematical representation exists. I have found it to be relatively easy for students to learn, and the developer, Imagine That, has put a lot of thought and effort into designing an elegant user interface."

-James Patell, instructor, Advanced Modeling Seminar, which is co-taught by Jeffrey Moore



Shackleton's Way: Leadership Lessons from the Great Antarctic Explorer by Margot Morrell, Stephanie Capparell, and Alexandra Shackleton

"The book is a very readable summary of Sir Ernest Shackleton's Antarctic exploration attempt on the *Endurance*. The ship became trapped in the ice, and the saga of those 28 men and how Shackleton led them all home safely is an incredible leadership story. I use it as a 'case study' in my seminar on issues in leadership, where we explore the what, how, why, and who of leadership."



— Robert Joss, dean emeritus and instructor, Issues in Leadership

Strategy for Sustainability by Adam Werbach

"I chose this book because it provides some usable frameworks for thinking about how firms can move toward practices that are more environmentally sustainable. It is useful for anyone considering a change to more sustainable business practices and those interested in corporate social responsibility more broadly."



-Sarah Soule, instructor, Sustainability as Market Strategy

The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies by Scott Page

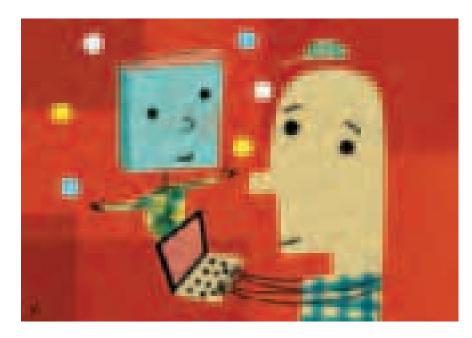
"Author Scott Page lucidly explains why increasing the cognitive diversity of groups and organizations can boost their problem-solving power. His argument is well reasoned. It not only spells out why this mechanism works; it also carefully describes when it will do so."

– Jonathan Bendor, instructor, Creativity, Problem Solving, and Innovation





Winning Market Share by Making Learning Cool



Shmoop combines sophistication, fun in online guides, test preparation materials, and teacher resources.

HIGH SCHOOL ENGLISH STUDENTS, take heart. *Jane Eyre* is more than just "a long novel about a gal in an ugly gray dress whose life — a lot of the time — totally sucks." *The Great Gatsby* features a "*Twilight*esque love triangle." And pretty much every chapter in *Moby Dick* "contains some kind of hilarious gag, accompanied by a nudge in the ribs from Melville."

So says Shmoop.com, a teen-savvy website that serves a sophisticated array of online learning guides, test prep, and teacher resources – all infused with a cool sense of humor. Since its launch in November 2008, the site has been recognized twice as an official honoree in the Webby Awards' education category, a feat matched only by the Public Broadcasting System. What's more, the privately held company is making money, says President and CEO **Ellen Siminoff**, MBA '93.

"We count our users in the millions per month, and we have many segments now to our business, so from a revenue standpoint it's gone beautifully," says Siminoff, a veteran Silicon Valley investor and entre-

preneur who was one of the founding executives at Yahoo. "We sell advertising, e-books, iPhone and Android applications, and we license our online test prep and curriculum to school districts and public libraries. Homeschoolers, people from public schools, private schools, charters, religious schools all of them use Shmoop in some way or another."

Siminoff's husband, **David**, AB'86, MBA'93, serves as chairman and chief creative officer of the Mountain View-based company. Like



David and Ellen Siminoff

Ellen, he made his mark as a Silicon Valley visionary by making early investments in Yahoo, AOL, Amazon, and eBay while he was an analyst and portfolio manager with Capital Research and Management. He went on to finance several enterprises of his own, including the mobile search service 4INFO.

The name Shmoop comes from a Yiddish verb that David's grandmother used when she wanted something nudged her way (as in, "Shmoop me my mahjong tiles."). The inspiration for the site dates back to David's student days, which included time as a Stanford English major and a Master of Fine Arts student at the USC School of Cinema and Television.

"I had some teachers who liked to hear themselves talk, and they used a lot of \$5 words to impress you, but they didn't do a great job of teaching you the concept," the 46-year-old father of two recalls. "I wanted to have a platform that students could trust, one that [would assume] they were smart and curious and wanted to learn the subject matter in a way that would stay with them for more than 28 minutes." Shmoop, he said, "is not about students doing the minimum amount of work. If you read through our

texts, you'll see they're many times the size of SparkNotes or CliffsNotes."

Shmoop's first experimental product was a learning guide for *The Call of the Wild*. Today students can download more than 600 free online guides — or pay to download them as PDFs, e-books, or mobile apps — for titles ranging from Homer's *Odyssey* to best-sellers such as the *Twilight* and *Harry Potter* series. "With Shmoop's help, teachers can take advantage of student interest in *Twilight* and *Harry Potter* to introduce more sophisticated literary analysis," explains **Brady Wood**, MBA '04, vice president of marketing and business development. As for widespread concerns about online plagiarism, he adds, "We don't give students answers. We show students multiple perspectives. We ask a lot of questions. We help students develop and defend their own opinions."

Besides literary guides, Shmoop sells resources to teachers and SAT, PSAT, and AP test preparation materials that can be purchased individually (\$13 to \$23) or in bulk by schools and public libraries. The products are developed by a stable of eight core employees and nearly 180 freelance writers, mostly doctoral students from Stanford, Harvard, and UC-Berkeley, carefully chosen for their ability to make dense subjects interesting and clear.

Such reliable, "clean" content makes Shmoop a better choice for students than user-generated sites such as Wikipedia, David Siminoff says, and the guides cost less than 2% of traditional textbooks. It's a classic Silicon Valley story, he adds. "When you do something faster, cheaper – and it's undeniably a better product – then you win market share."

Theresa Johnston, AB '83, is a Palo Alto-based writer.

Desegregating Advanced Placement Courses

Social Innovation Fellow recruits potential achievers who are often overlooked.

A PAIR OF 16-YEAR-OLD best friends is enrolling in classes at Interlake High School in Bellevue, Wash., in the late 1990s. With strong backing from his mother, one teen decides to sign up for Advanced Placement courses with their rigorous workloads and the potential to earn college credits. The other boy, whose mother dropped out of high school and was unaware of the benefits of these classes, chooses differently. The first boy excels despite tough homework and long hours of studying. He graduates at the top of his class in 2000 and attends Harvard, where he studies education and government. After Harvard, he teaches in North Carolina, attends graduate school for a dual degree in education and business at Stanford,



and receives a fellowship for his own nonprofit from the business school's Center for Social Innovation. As he shuffles between MBA classes and faces judging panels for funding, his friend works his way through college by patching roofs.

"He's told me himself that he spent the last 10 years making up for what was lost" with what seemed like an innocuous decision at the time, **Reid Saaris**, MBA '10, says of his friend.

Advanced classes throughout U.S. high schools are dominated by upper-middle-class students who've been nudged by their parents to enroll. These Advanced Placement and International Baccalaureate courses offer college-level materials and instruction to high schoolers and the opportunity to enter a university with college credits or advanced standing as a sophomore if they pass their exams. However, many students from low-income families are absent from these demanding classes. Saaris hopes to change that.

In 2005, he founded the nonprofit Equal Opportunity Schools that works directly with high school staff to find and encourage lowincome and underrepresented ethnic minority students to enroll in advanced classes. From its humble beginnings at Battery Creek High School in Beaufort, N.C., to today, the organization has enrolled hun-

Social Innovation Fellowships

The Center for Social Innovation offers \$80,000 to \$120,000 in seed funding for qualifying social entrepreneurs who consider launching a nonprofit organization to address a pressing social or environmental issue. Alumni applying within three years of GSB graduation are now eligible. See http://csi.gsb.stanford. edu/sif for details or call 650-725-5399.

Reid Saaris, MBA '10, was awarded a fellowship from the GSB's

Center for Social Innovation to help him expand his organization.

dreds of students from two states in advanced coursework and is adding more and more school districts to its list of partners.

While working as a history teacher for three years at Battery Creek, Saaris witnessed how segregated advanced courses could be. "You could tell which class you were in by the color of the students' skin," he remembers.

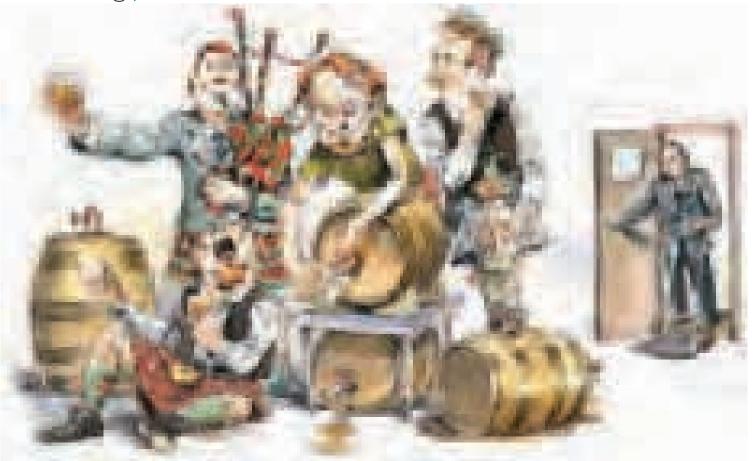
Then in 2005, Saaris became the coordinator for the advanced programs. He expanded enrollment to include the students who had been left out. The number of African American students studying in advanced courses at the school tripled. The total number of students passing the advanced exams increased nearly sixfold.

Battery Creek graduate Jack Weaver remembers the transition. In 2004, Weaver was a junior taking a higher-level history class. "The program has so many more resources and work. I really had to learn to be more disciplined," he recalls. Then in his senior year, when Saaris became coordinator of the program, Weaver remembers that "everyone noticed right away that there were more black kids in class. They definitely changed the dynamic of class discussions."

Weaver, who describes himself as middle class, believes that most of his success in advanced courses came from teachers such as Saaris empowering students by giving them responsibility. At first, Weaver found it difficult to complete all his homework, and without it, he was not allowed to participate in the lively class discussions about the reading.

Raising expectations is a core belief in Saaris' philosophy. Many students are placed in remedial classes on the basis of their academic *Continued on page 36*

Investing by Janet Zich



Offbeat Investments Made Sense at the Time

Some benefited from perfect timing; others encountered the perfect storm.

DID YOU BUY Berkshire Hathaway in the 1970s? When *Stanford Business* asked alumni what were their most "unusual investments," we learned that a prescient few did buy Berkshire back when they were MBA students. Other alums found value in less traditional investments.

For example, **Jeffrey Malone**, MBA '74, invested in a pre-Columbian artifact dig in Mexico. **Jessie Christina Huang**, SEP '97, bought silver in the form of 18th-century French sterling and antique Native American jewelry. And **Robert Litfin**, MBA '59, invested in forex currencies, although he warned others, "Beware, the tools are hot enough to burn the hand that feeds them!"

After a 46-year career as a venture capitalist specializing in hightech startups, Sutter Hill Ventures founder **Paul M. Wythes**, MBA'59, reported that he made an investment that was most unusual for him: He bought into the San Francisco Giants baseball team. "Tve learned quickly that I don't know much about what happens inside the white lines, but I find the management issues still critical to a company's, or a partnership's, success." Wythes' reported paper value increased roughly twofold in his first three years as a principal partner. That was before the Giants brought their first-ever World Series win to San Francisco in October.

Another sports investor, former food equipment executive **Joe Deering**, MBA '64, and his wife, Gail, began breeding Friesian horses

in North Carolina in 2004, entering them in competitions, and offering them for sale. Star of their gentle giants is the gelding Samson, who excels at barrel racing and "loves to dress up and compete in regular events, including jumping, dressage, and pulling carts," the Deerings wrote.

Garrett Redmond, SEP '74, who raises thoroughbred horses at his Ballycapple Farm in Bourbon County, Kentucky, wrote that he has designed two unusual instruments for people who want to invest in thoroughbreds. One is what Redmond calls a "speculative investment" in the offspring of a specific stallion over a given time, and the other, "a type of futures or options market in young, prospective racehorses." And you thought you had to go to the track for a deal like this.

Real estate executive **Bukk Carleton**, MBA '64, recalled one investment with special pride. Carleton had a hand in the development of the 3,000-acre heavy industrial park, Pureland, in Southern New Jersey back in the early 1970s. "We were the first to get large oil companies to submit to private environmental controls other than state and federal, which were much more stringent at the time than government controls," Carleton wrote.

Christopher Mothersill, MBA '86, remembered learning a lesson when he led a private equity team that invested in an integrated tuna fishing, processing, and canning business in Indonesia. The company was located on the island of Biak, where the tuna were plentiful and the labor costs competitive. However, Biak is a Christian enclave in the world's largest Muslim nation and home to frequent religious clashes. "The project did not fully meet expectations due to periodic, but massive, labor disruptions, with workers fleeing the plant for safety elsewhere," Mothersill said. "Nevertheless," he concluded, "a fascinating and valuable experience."

And then there was **Don Dobler**, MBA '58, PHD '60, whose succinct reply to our unusual-investment question is quoted here in its entirety: "Five kegs of Scotch Whiskey in Scotland. Not a good decision."

No discussion of investments is possible without mentioning the awful financial events of 2008 and 2009. "Reality and bad luck — 'the perfect storm' — hit all our real estate investments, particularly hard in Hawaii, where I was born and expected to return," wrote **Bob Coleman**, MBA '74, who says he has since returned to the real world of work. "We had no retirement from any of the companies we worked to build. Hence we put our dollars in real estate, borrowing from our residence's equity. Oops!"

Not long after Coleman's real estate investments tanked, **Stephane Albernhe**, SEP '08, found himself on the other side of the housing meltdown. "Because of the economic crisis I decided to invest in real estate," he wrote. "This was a good decision. I had the opportunity to buy a quite rare apartment in the French Alps with a steep discount compared to its value one year before."

Hans Mueller, SEP '92, looked at the bright side of the recession. In October 2008, as the global financial crisis dominated the headlines, he wrote: "Six years ago, I was taken completely unprepared at an art auction by a good painting. I bought it on the spur of the moment and paid a rather high price for it. For quite some time I thought I was a fool. This summer, a painting by the same artist — same subject, same size, painted during his same vacation, and of the same quality — was

auctioned in the same city for almost three times the price I paid for mine. The stock account I used to pay for the painting has not really suffered when you include this investment in art. And as a bonus, we enjoy this wonderful painting every day."

Perhaps the biggest financial success story we heard came courtesy of **Andrew Cowherd**, MBA '77, who recalled the investment seminar back in 1977 when finance Professor **Jack McDonald**, MBA '62, PHD '67, introduced Warren Buffett to the class. "At our 30th reunion, several classmates disclosed that they had bought Berkshire Hathaway stock at that time — and that they still held it!"

Not all the respondents counted their ROI in dollars or euros. Jack Boyd, Sloan '66, is investing in his nine grandchildren, one camp or cooking lesson at a time. Genoa University economics professor Sergio Grea, SEP '85, is investing in his health. Still cycling 5,000 kilometers a year, Grea bought a racing bicycle to conquer the mountainous portions of the Giro d'Italia and the Tour de France, "as Lance Armstrong does, but a bit, just a bit, slower." And Bruce Baker, MBA '81, invested in his future. He spent two years at the University of St. Andrews in Scotland, studying for a PHD in theological ethics. Baker was awarded the degree in June 2010 and is now an assistant professor of business ethics at Seattle Pacific University.

Finally, there was the chance of a lifetime — literally. **Mark Rosenbloom**, MBA '78, is the founder of Pepid, a publisher of medical and drug information in a variety of formats, which got an offer that was hard to refuse. "The strangest investment I almost made, and was seriously considering, was to become the first human being cloned!" Rosenbloom wrote. "A competent scientist came to us and offered us worldwide publication rights for the cloning story and a choice of who would be cloned, in exchange for \$1 million. While it would have been a reasonable business investment, we eventually declined due to ethical concerns."

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Partners Relaunch Arousal-Oil Company



Rachel Braun Scherl, MBA '92, left, and partner Mary Jaensch bought the company that makes Zestra out of bankruptcy.

would have advertising the product. They approached TV stations, radio stations, and websites. "The two general answers we got were, 'We don't cover your category,' when clearly they cover male satisfaction, or they approved us in very limited time periods, often in the middle of the night," Braun Scherl said. "We had money we wanted to spend on their properties, and they wouldn't take it."

When stations and other media properties asked them to add specific disclaimers to the ad, the team readily responded. But Facebook, for example, ran their ads for three weeks before pulling them, saying they were in violation of its policy. WebMD never approved the ads for Zestra, despite frequent ads on the site for male enhancement products. With these and other outlets, it has been difficult to get specific information about why they are refusing the ads.

"They really don't explain why they run male ads and not ours," Braun Scherl said.

Today, the company has ads on a limited number of TV stations, radio stations, and websites and is hoping to run more. "We are

RACHEL BRAUN SCHERL, MBA '92, and longtime business partner Mary Jaensch had been running a successful consulting business for a decade when a venture capitalist approached them in April 2008 with a business plan for a company that sold Zestra, a feminine arousal oil to help women increase their sexual satisfaction.

"The VC said, 'There's no management here, so we can't invest, but it seems right up your alley," Braun Scherl

said. "The person was thinking we would go in and manage the company."

The opportunity was intriguing. Zestra increases a woman's sensitivity to touch, allowing her to "feel things sooner, deeper,

and more intensely," Braun Scherl said. (Zestra is regulated as a cosmetic rather than a drug, so the manufacturer can't make specific claims about the effects of its specific ingredients, which include borage seed oil and evening primrose oil.)

"Forty-three percent of women experience some sexual concerns or difficulties," Braun Scherl said, and no approved prescription products are currently on the market. Zestra conducted two clinical trials, which concluded that the product increased sexual satisfaction. "We said to each other, 'We've sold products to women that didn't carry the same emotional weight, including toothbrushes and hemorrhoid cream. We can do this.""

One thing they did not anticipate was the difficulty they

actively engaged in trying to get our ads approved for TV advertising so that women and their partners are aware of this great option," Braun Scherl said.

Early on, however, other problems with the business were more obvious, and some of these are discussed in a case study the Graduate School of Business prepared for its courses on entrepreneurship.

Turning around a bankrupt company wasn't as difficult as convincing media outlets to accept their advertising.

After one meeting, it was clear that "way before they needed managers, they needed money," Braun Scherl said. The company had 165 individual shareholders and more debt than equity. "Despite the appeal, we didn't want to get involved in any way in that kind of financial mess."

With the company headed toward bankruptcy — it filed on June 29, 2008 — Braun Scherl and Jaensch contemplated whether they could take it over. To do so they needed to raise money and learn how to buy assets out of bankruptcy — neither of which they had ever done.

They found an investor in Quaker BioVentures (not the firm that originally contacted them about the business). "I felt that the two of

them really had what it took to make the product and company be successful," said Adele C. Oliva, a partner at Quaker.

Oliva and **Jessica Hou**, an analyst at Quaker who is a member of the Stanford MBA Class of 2012, spent the summer of 2008 working with Braun Scherl and Jaensch to buy the company.

"Until 11:30 a.m. on Aug. 22, when the Delaware bankruptcy court awarded us the assets, we weren't absolutely sure" whether the bid would succeed, Jaensch said. It did, and Semprae Laboratories — a partnership between Braun Scherl and Jaensch and Quaker — was awarded the assets of the company formerly known as Zestra Laboratories, for \$3 million including transaction fees. Then, the real work started: "We owned the assets, we had a check from investors and permission to do business in the state of New Jersey," Jaensch said.

After the purchase, they had several million dollars left to start the new company. The money was raised from Quaker and investments by family, friends, angel investors, and management.

They spent the first six months evaluating and changing many aspects of how Zestra was sold. They changed the flavor and scent, for example, as well as the packaging. They also changed the sales model. Zestra had been sold primarily in stores, and Braun Scherl and Jaensch moved to a primarily online model for sales.

Another significant change was in the way Zestra was positioned in the market. Zestra had been presented as a product that would help women with sexual problems. After 19 focus groups, an 800-person study, and online studies with former customers, they decided on a new message: "All women deserve sexual satisfaction."

"It was formerly more around female sexual dysfunction," Oliva said. "Women just don't want one more thing wrong with them."

One place they turned for help remaking the product was a partnership with two other Stanford MBAs, **Eden Godsoe** and **Erin McBride Crocker**, both MBA '98. Godsoe and Crocker were launching SkinnyScoop, a website that lets women survey other women anonymously on just about any topic. "It helps women make decisions and gives them a sanity check," said Godsoe, cofounder and CEO of SkinnyScoop.

See an interview with Rachael Braun Scherl,

MBA '92, at BizOnline.Stanford.edu/Zestra

SkinnyScoop and Semprae developed a partnership based on their similar goals, and Semprae placed a highlighted question on the site: How would you rate your sexual satisfaction? They wrote up the results, which confirmed their other research, for their customer newsletter.

The business relaunched in April 2009, a year after Braun Scherl and Jaensch originally heard about it. Today it has 11 employees, plus a few consultants. The company has reached a customer breakeven point, meaning that customers spend more than it costs to acquire them. They expect that the company as a whole will break even in 2011.

Both Jaensch and Braun Scherl say the strength of their business relationship has been key to their success. "There's a tremendous amount of mutual trust and respect," Jaensch said. When they ran their consulting business, they set it up as "a completely equal partnership," but when it came to this business, they realized outsiders needed to see one person in charge. Because Jaensch had more years of experience, they decided she would be CEO of Semprae, which is based in Saddle Brook, N.J. Braun Scherl is president.

Braun Scherl, who sometimes speaks in GSB classes about her entrepreneurial experience, said she has learned a lot: "You will have the opportunity to use so many different parts of your brain and skill set, many of which you might not even be aware you had."

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MEXICO

THE ISSUE: Doing business in a nation where extreme wealth and extreme poverty exist side by side.

THE MOMENT: Talking with Carlos Slim, the richest man in the world and later meeting with 20 women who can barely afford to feed their kids.



FEET ON THE GROUND

N A SECOND-FLOOR CONFERENCE ROOM IN MEXICO CITY, 40 students from Stanford's Graduate School of Business waited eagerly for their audience with the world's richest man. An aide to billionaire Carlos Slim prepared the cherry wood table with a pad of paper, freshly sharpened pencils, and a doorbell-style buzzer, used by Slim to summon assistants. The Mexican tycoon made his entrance dressed in an off-the-rack suit from Sears Mexico, part of his business empire. During the next 2¹/₂ hours, Slim held forth on topics ranging from his businesses and philanthropic activities to the value of capitalism, impressing the MBA students with his inexhaustible ability to recall details of deals he had struck decades earlier.

Two days later, on the outskirts of Mexico City, students met with women who had taken out loans as little as a few hundred dollars each from a microfinance bank to fund their tiny enterprises. The Stanford group made its way past rough cinderblock houses, many with steel rebar jutting up from unfinished construction. Under a blue tarp in the courtyard of one home, they listened as one by one the women told their stories of using microcredit to eke out livelihoods such as renting out dresses, making trinkets, and selling jewelry. Student trips provide intellectual, emotional experiences with other cultures for students learning to lead in a global economy.

by MARIA SHAO

INDIA

Karol Baph

THE ISSUE: Using social engineering to change the way people behave.

THE MOMENT: Learning that the New Delhi metro system had trained volunteers to form lines and model orderly conduct in stations and on trains.

The richest of the rich and the poorest of the poor — all within an hour's drive. Mexico's wealth disparity "is certainly not a secret," says **Dupree Scovell**, MBA Class of '11, a participant in the March 2010 trip. "But you don't really understand it until you have a chance to sit in a boardroom with Carlos Slim and then go to a meeting with 20 women who can barely afford to feed their kids. That gives you a whole other level of understanding."

That's exactly the point. With global experience a required part of the MBA curriculum since 2007, international trips are designed to give students on-the-ground experience that goes beyond what can be learned in a classroom - broadening their thinking and developing knowledge and skills to manage in a globalized economy. Led by second-year students who gain leadership experience and accompanied by a faculty member, trip participants (mostly firstyear students) delve into a geographical area studying industries, management, and societal issues. For 8 to 10 jam-packed days in December and March, GSB students fan out to immerse themselves in the culture of countries where they have never lived or worked, meeting with business leaders, innovators, nonprofit organizers, and even heads of state. At a school where one-third of MBA candidates are from outside the United States, the travel usually is shepherded by students who want to show off their native countries and can open doors back home.

Many recent graduates remember the trips as a highlight, if not *the* highlight, of their MBA education. "There's no better learning than going on the ground," declares **Abdulaziz Al-Arifi**, MBA '10, who co-led an inside look at his home country of Saudi Arabia and the United Arab Emirates (UAE).

"You get a lot of aha moments you can never experience through

a case study or a book or a lecture," says **Baba Shiv**, the Sanwa Bank Limited Professor of Marketing, who has been on five global study trips. There are about 20 annually. "These kinds of experiences allow students to go through memorable moments that stick."

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Global study trips, with about 40 participants each, provide broad business and cultural exposure to a country. Service learning trips of about 20 people each focus on a specific social or economic theme, such as health care in India or education in South Africa, and also include a service opportunity, such as a consulting project for a local nonprofit group.

To be sure, traveling and studying abroad is nothing new in higher education. In earlier centuries, young aristocrats from America, England, and elsewhere took the "Grand Tour" of Europe to gain exposure to the arts, culture, and roots of Western civilization. By the late 1960s, Stanford was sending 55% of its undergraduates abroad (more than any other U.S. university), mostly to its own programs in Europe. At the GSB, students have been organizing trips since the mid-1980s, generally as an extracurricular activity.

Today, most Stanford MBA students choose to go on either a global study trip or a service learning trip to fulfill the school's "global experience" requirement. School Dean **Garth Saloner** says the requirement "is the element of the new curriculum that has surprised me most in terms of its impact." By introducing observations from the trips into class discussions, "the students have globalized the curriculum," he told an Alumni Weekend audience. Discussions are "more global-centric rather than U.S.-centric," says **Muhammed Mekki**, MBA '10, who went on a trip to India and co-led the Saudi Arabia-UAE travel.

By most accounts the trips fulfill the mission of providing experi-

the same

ential learning that enhances classroom instruction. **Carole Robin**, a lecturer in organizational behavior who has accompanied students to Africa, Southeast Asia, and Brazil, sees two benefits. One is "conceptual," broadening knowledge of global issues, management, and leadership issues, or of a country or industry. The other is "personal," which revolves around exercising leadership, getting to know other students better, and having a meaningful and fun experience.

FTEN, PEOPLE LEARN when their preconceived notions about a country, or the way things are done, are debunked. For instance, on a study trip to India in December 2008, the GSB travelers were astounded when they went underground to a metro station in New Delhi. "It struck all of us — this doesn't seem like what we saw 100 feet above. There's no chaos, everybody's standing in line, everybody's being polite, the carriages are clean. How could this have happened? This is Delhi, the city of chaos," Shiv recalls. Later, in a meeting with the head of the metro system, the group learned that, before the transit system first opened, volunteers had been

trained to form lines at every carriage door to "model" orderly behavior. "They were using social engineering as a way to change the way people behave," Shiv says.

Along with the global experience requirement, the GSB in 2007 introduced a mandatory first-year course, *Global Context of Management*, where students develop a framework for analyzing the differences among countries and how they affect management. "Study in advance affects the perceptual lens through which we experience a country," says **William Barnett**, the Thomas M. Siebel Professor of Business Leadership, Strategy, and Organizations, who teaches the class. But, he adds, "A conceptual

understanding only goes so far. One also has to have an experience to apply that understanding. There is no substitute for being on the ground in a country and seeing the differences."

Faculty members play a key role in helping students make sense of their travel experiences, especially in the frequent debriefing sessions during a trip. In Turkey, participants were asked what they would need to know if they were head of a multinational company in the country. In South Africa, they were asked to define their role and responsibilities if they were a CEO during apartheid. "It raised the question of what is the role of a CEO beyond increasing shareholder value. It gave a deeper meaning to it," says **David L. Bradford**, the Eugene D. O'Kelly II Senior Lecturer in Leadership, Emeritus, who accompanied students on trips to each country.

Study trips enable students to see complexities and nuances that aren't evident in a class. Complexities quickly became apparent on the March trip to Mexico, which had been billed as a chance to experience "doing business in a country of contrasts." After the meeting with Slim, whose businesses in telecom, construction, retailing, and other areas touch virtually every aspect of Mexican life, GSB students debated questions such as how far capitalism should go and what role government should play in curbing monopolies and protecting the poor.

Their meeting with the poor Mexican women sparked discussion about the workings and ethics of microfinance. Microfinance lenders have been criticized for charging exorbitant interest rates to the poor and fostering a dependence on debt. "The model in Mexico is moving the needle for Mexico's poor. But I wondered if it was truly breaking the cycle of poverty for the women we met," says **Erik Kronstadt**, MBA Class of '11. Classmate **Will Boenig** adds: "I got to appreciate the complexity and the challenge of elevating the bottom of the pyramid."

The group visited the Mexican women accompanied by loan officers from Compartamos Banco, a publicly traded company that is Latin America's largest microfinance bank. Many of the students had been skeptical about whether lending to the poor can be a profitable business. "It was shocking for us to see a model like that actually being profitable," Scovell says. In addition, his eyes were opened to the possibility of doing business in Mexico. After the trip, he convinced his family, which owns a real estate development company in Dallas, to pursue business partners in Mexico. "There really is much more opportunity than I considered. Before, we would have said it was too dangerous and too hard."

In a different hemisphere, a delegation including Saloner obtained hard-to-get visas for Saudi Arabia, part of a December 2009 journey

"I had assumed [their welfare state] created inefficiencies because it didn't follow U.S. free market ideas."

that also included the UAE. Al-Arifi, organizer of the Saudi portion of the trip, was eager to showcase his homeland. "Culturally, there are many things people in the U.S. don't know about [Saudi Arabia]. I felt an obligation to show my country through my eyes."

Like many of his American peers, **Sam Edelson**, MBA Class of '11, had associated Saudi Arabia mostly with oil and the desert. He was surprised by the diversification. For example, the group was briefed about plans for the King Abdullah Economic City, a Washington, D.C.-size city that will feature a seaport, rail system, resorts, industry, and residences. "A real-life SimCity" is how he describes it. "I was amazed. I thought it would be all oil. I hadn't realized they were diversifying away from oil. The country was being very forward thinking."

Social differences were particularly apparent to the women traveling in Saudi Arabia. They donned black robes, or abayas, to comply with local rules. "I actually found myself shuffling along and looking at the ground because I was afraid I would make eye contact," recalls **Amanda Luther**, MBA Class of '11. She found it noteworthy that the Saudi women they met were generally accepting of the gender restrictions, which also include a ban on women driving and separation from men while dining in restaurants.

Many of the GSB students were struck by the open-mindedness of the Saudi business elite. A GSB alumnus and former executive of Saudi Aramco, the national oil company, hosted a dinner party at his

SWEDEN & DENMARK

THE ISSUE: Can Scandinavian companies be competitive globally in a high tax, high wage, and highly regulated environment?

THE MOMENT: Meeting with companies that valued regulation, collaborated with labor, and found having skilled workers a competitive advantage.

beach home for the Stanford group and 40 colleagues, mostly Western-educated. "They really wanted society to move forward and be more open. I didn't realize the upper class was so progressive-thinking in terms of creating change," Edelson says.

Södermalm

Inevitably, students who go on these organized trips gain a broader view of how different economic systems work. On a March 2010 trek to Denmark and Sweden, GSB travelers looked at the "welfare state" in Scandinavia — compressed wage scales, high taxes, heavy unionization, and extensive government-funded social benefits such as education, health care, and environmental protection. Seeing the system in action challenged preconceptions.

"I had assumed it created inefficiencies because it didn't follow U.S.[-style] free market ideas," recalls **Dan Maas**, MBA Class of '11. Some wondered how a company could be globally competitive in a high-tax, high-wage environment. They assumed that, with relatively slight differences in pay between the high- and low-skilled workers, Scandinavian employers were paying relatively more for low-skilled workers and were therefore less competitive with countries such as China. In fact, companies told them the opposite: Swedish telecom giant Ericsson believed that it was getting engineering talent for relatively little, and Danish pharmaceutical maker Novo Nordisk said the wage structure made employing a large research and development staff cost effective.

Students also took away a deeper understanding of the collectivist nature of Scandinavian society. They were struck by the amount of trust companies and individuals placed in government and the buy-in to regulation. An executive of Danish shipping line Maersk said, "We see regulation as an opportunity" since it benefits the most efficient and least polluting companies. They also saw a collaborative relationship between companies and labor unions. Unlike in the United States, "they were at the same table," says **Jack Turner**, MBA Class of '11. For him, the biggest surprise was getting puzzled looks whenever a student asked about the Scandinavian welfare model. "People would say, 'What are you talking about?"" he recalls. "For them, it's just the way they do things." Their reactions made him realize how important culture is in shaping the lens through which people view the world. "The bottom line is to check your assumptions."

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SSUMPTIONS ALSO are challenged on trips to developing countries, where students learn about the roles of business, government, and nonprofits in economic development. Researching Guatemala's coffee supply chain, GSB students picked coffee beans for a morning on a steep hill, then learned that they had earned less than \$2 as day laborers, not enough to buy a cup of Starbucks coffee in California. "It was one of those big moments, an aha moment, in terms of what the supply chain means in human terms," recalls **Tom Mercer**, MBA '10/MS '10. After meeting with Guatemalan coffee regulators, agri-cultural nonprofits, and other players in the coffee supply chain, the students also realized that much of the profit is in the hands of coffee roasters, with very little filtering down to small local growers.

On a service trip to Cambodia and Thailand, students met with a Bangkok nonprofit group renowned for its work in alleviating poverty and improving public health. Guided by the group, students passed out condoms to sex-industry workers in a red-light district *Continued on page 23*

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THAILAND

THE ISSUE: Contraception aids for sex workers as a tool to battle sexually transmitted disease.

THE MOMENT: Passing out condoms to sex workers challenged student beliefs about what was right and wrong and how to promote change.





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to highlight the importance of protection in battling sexually transmitted diseases. The activity had shock value, but also a purpose. "It was incredibly uncomfortable. That's why it was memorable," recalls **Lazeena Rahman**, MBA '10/MPP Class of '12. "It challenged a lot of people's beliefs about what was right and wrong and the conceptions of how you can create change."

No trip experience is more intense, perhaps, than being among the two to six students leading a journey. Leaders don't just put together a trip, they design an experience. Responsibilities can stretch beyond a year, requiring hundreds of hours of work from each leader to secure meetings with VIPs and to nail down travel logistics. The leadership teams must make joint decisions,

allocate the workload, and manage a trip budget. Shepherding peers can be challenging because leaders don't have formal authority over other students. Yet they are responsible for 20 to 40 MBA students, often with Type A personalities, who want to gain deep insights and have fun at the same time. "You have to coordinate or coerce your classmates or colleagues," Bradford says. "How do you build a cohesive learning community? How do you develop norms? How do you make sure things work well?"

Leadership in this context is about the "influence process." Bradford and Robin created and taught a five-week course to help trip organizers develop their leadership skills. The class included role playing and discussions of how to establish a vision and handle critical incidents such as a speaker canceling at the last minute or students on the trip rebelling against a packed schedule. "The most enriching experience for me at the GSB was leading a trip — sourcing meetings, being responsible for participants, having everybody happy," says **Santiago Rivera Torres**, MBA '10, who went on a trip to Turkey and co-led the journey to his native Mexico.

Faculty members say study trips also provide fodder for teaching. The trips "allow me to generalize in a more appropriate way, to gen-

Leaders don't just put together a trip, they design an experience.

eralize what we teach and see some of the cultural differences," Bradford says. They also provide faculty with a broader set of examples and topics. For example, after a Chile-Argentina study trip exposed Shiv to how Chilean farmers raise salmon ecologically, he introduced a class discussion on marketing salmon as a premium eco-product rather than a commodity.

Hau Lee, the Thoma Professor of Operations, Information and Technology, who teaches global supply chain management, says study trips have helped him develop case studies and to teach them more effectively. "The teaching dimensions are tremendous," Lee says.

Whether they are teaching or learning, many members of the business school community have discovered something simple but powerful: Experiencing the world is to understand it.



Good Management Weaves Gold into the Bottom Line

A new Stanford–World Bank field experiment in Indian textile plants finds the most compelling evidence to date that management matters.

> N A MANUFACTURING CENTER four hours from Mumbai, India, the last working elevator in a textile weaving plant grinds to a halt. The looms and workers on the second floor need more cotton yarn to weave horizontally into the vertical warp threads in order to make cloth. But the factory owner is away on a sales trip, and no one else in this 24-hour-a-day, 7-day-a-week factory of 200 employees is authorized to pay for elevator repair. A cadre of workers is left with no option but to carry 1,200-pound spools of yarn up the stairs.

"You might wonder how a factory owner who refuses to delegate authority on this level can stay in business," says **John Roberts**, a Stanford Graduate School of Business economist who has studied this cloth-weaving factory and many others that make shirting, suiting, or home furnishing fabrics for the Indian domestic and Middle Eastern markets.

Indeed, economists and industrial policy makers have long puzzled over astounding differences in the productivity of companies in the same industries or same countries. For example, U.S. plants making cement, block ice, white pan bread, and oak flooring display 100% productivity spreads. On a country comparison basis, India's per capita gross domestic product is one-seventeenth that of the United States.

"A natural explanation for these productivity differences lies in variations in management practices," says Stanford economist **Nick Bloom**, who, along with **John Van Reenen**, a visiting professor from the London School of Economics, has developed methods to compare management and productivity across industries and countries. They find strong correlations between management and productivity, but correlations are not proof of cause and effect.

News media, book publishers, business schools, and government officials all talk about the importance of management, Bloom says, but many workers, economists, and even some of his MBA students and managers taking GSB executive education classes are skeptical.

Some of Bloom's and Roberts' peers in economics believe that bad management practices can't exist in competitive industries, except in the short run. For example, in their view, companies in developing countries may not be adopting quality control systems that are common in countries with higher wages because wages are so low that repairing defects is cheap. Hence, their management practices are not "bad," but the optimal response to low wages.

by Kathleen O'Toole

Illustration by PAUL WEARING



BEFORE: Textile plants managed hundreds of yarns and fabrics without formal labeling and storage systems. **AFTER:** Organized inventory enabled firms to slowly reduce their capital stock.

A second reason for skepticism, Roberts says, is the complexity of management, making it hard to measure and quantify. While some business educators believe there are "best practices" that are universally good and that all firms would benefit from adopting, others hold the "contingency view" that every firm is already adopting optimal practices, which are different from firm to firm.

In a rare feat for economics, Roberts, Bloom, and three colleagues were able to provide experimental evidence that a core set of management best practices does exist. In a 2-year field experiment that ended in 2010, they compared Indian textile factories in the same labor market and showed that those that adopted so-called best practices improved their productivity about 10% within a matter of months, while a control group did not. The scholars also detailed the impediments that kept firms from adopting better practices.

Besides Roberts and Bloom, the researchers are economist **Aprajit Mahajan** of Stanford; Benn Eifert, a recent doctoral graduate of the University of California-Berkeley; and David McKenzie of the World Bank. The \$1.3 million experiment was made possible by a variety of grants, with the largest support provided by Stanford's Graduate School of Business and Freeman Spogli Institute for International Studies.

The researchers worked with Accenture consultants to expose 20 mid-size Indian textile plants owned by 17 firms to management practices commonly employed in U.S., European, and Japanese manufacturing plants. The factories, a small fraction of those in the towns of Tarapur and Umbergaon, India, were assigned randomly to a control group of 6 plants or to a "treatment" group of 14 plants. Based on their prior textile experience, the consultants chose to promote 38 practices such as routines for recording and analyzing quality defects, production, inventories, and order fulfillment. They encouraged preventive maintenance, clear job assignments, and incentive pay based on performance.

Photos taken before any changes were implemented show storerooms of yarn in disarray, factory floors littered with tools and other safety hazards, and haphazard handwritten records of product defects. While such disarray might work fine for a single artisan, Bloom says, firms with hundreds of employees performing complex operations need formalized management practices to support coor-



BEFORE: Unsorted yarns in a storeroom make it difficult to plan production. **AFTER:** Designers get clear information about quantities and type of yarn stock so they can incorporate the stock into designs.



BEFORE: An old warp beam and furniture obstruct a factory floor. **AFTER:** Better organized floor space permits workers to move supplies safely and efficiently.

dination and motivation.

The study began with consultants spending a month in each plant diagnosing problems and constructing databases for recording metrics such as output, efficiency, quality, inventory, and energy use on an ongoing basis. They then provided each treatment and control plant with a detailed analysis of its management practices and performance.

"The control plants were given diagnostics because we needed to construct historical performance data for them and help set up systems to generate ongoing data," Roberts explains.

Next the consultants spent 4 months with the 14 plants randomly chosen for "treatment." The consultants' job was to persuade plant managers to implement the practices and also to help them implement, fine-tune, and stabilize the procedures so that they could be carried out readily by employees. For example, one of the practices implemented was daily meetings for management to review production and quality data. The consultant attended these meetings for the first few weeks to help the managers run them and provide feedback.

"The treatment intervention led to significant improvements in quality, inventory, and production efficiency," the researchers wrote in a summary. "The result was an increase in productivity of about 10%, a 60% reduction in defects, and a substantial increase in profitability of about \$200,000 on estimated average-plant sales of \$7.5 million." In contrast, the control group factories registered less than a 1% gain in productivity.

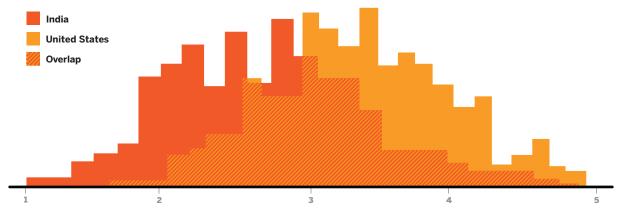
For GSB strategy Professor **William Barnett**, the researchers "not only identified improvements in firms' measureable performance, they also specified the process by which it happens in terms of changes to management practices. Those changes were made with the same management, which demonstrated that achieving better practices is a learning process."

That suggests a greater role for executive education programs in developing countries, says Barnett, who codirects the business school's Center for Global Business and the Economy with Roberts and former Secretary of State **Condoleezza Rice**. Yet reaching firm managers in rapidly developing economies won't be easy, Roberts and Bloom say, because sales representatives for services besiege them. "We think we were able to get permissions to do our study partly because of the Stanford name," Bloom says.

In rapidly developing economies, such as India, China, and Brazil, Roberts adds, sophisticated management practices do exist in high-



BEFORE: Weaving defects and mending are recorded ad hoc in case a customer complains and demands a refund. **AFTER:** Defects and mending are recorded daily in a standard format so the data can be analyzed by loom, shift, design, and weaver to improve quality.



Research by Nick Bloom and John Van Reenen produced management scores on a scale of 1 (worst) to 5 (best) for surveyed manufacturing plants in dozens of countries. Indian factories, shown here in orange, have a wide range of scores, as do U.S. firms, shown in gold. The average score is lower for Indian firms because of a large tail of badly managed, often family-run firms.



BEFORE: Workers met when necessary to repair broken machines. **AFTER:** Plant managers meet regularly with heads of quality, inventory, weaving, maintenance, and warping to analyze data and prevent or fix problems sooner.

tech firms and in others that have had broad exposure to multinational companies, but practices are less systematic in other industries, such as textiles.

The processes that were successfully introduced included recording machine downtimes and the reasons for them, clearly marking the floor where each machine should be, daily updated visual aids on procedures and efficiencies per machine, and spare parts systematically purchased, recorded, and stored.

In quality control, the practices included monitoring, recording, and meeting to discuss defects on a daily basis, developing a clear grading system for the product and an action plan based on defect data. Previously at some plants, defects were logged in handwriting but only referred to if a customer complained. Now defects are analyzed so they can be corrected the next day and not repeated.

In the "treated" factories, Bloom says, display boards now make productivity statistics visible on the shop floor, and incentive pay is based on the data.

Factories often lost track of yarn supplies. Now they have them organized and counted so designers can fashion uses for them.

The Accenture consultants asked standardized questions to learn why a given practice had not been adopted previously. Cultural prac-

See Bloom present research results in a video at BizOnline.Stanford.edu.

"It's really the same story as with the U.S. auto industry in the '70s to '90s."

tices and legal institutions played a role, but, Roberts says, the primary impediment to change is limited knowledge.

"We saw a significant uptake in preventive maintenance in our treatment firms but not in the control firms, who heard about it in the initial consulting. Even in the treated firms, consultants had to persuade the owners to try preventive maintenance on a sample of machines first. They needed to see proof it paid off over time."

When asked why they had not done preventive maintenance before, factory workers indicated "either it was because they never heard of it, or they didn't believe it worked, or they thought they were pretty good at what they did already."

"It's really the same story as with the U.S. auto industry in the '70s to '90s," Roberts adds. "At first they didn't adopt Toyota's lean product techniques because they didn't know about them. Then they knew about them but didn't believe they would work in their plants. Finally they needed help implementing them."

The management of the Indian textile factories was highly centralized, which also makes change difficult. While the average com-



BEFORE: Dirty machines without preventive maintenance. **AFTER:** Snag tags mark abnormalities such as redundant materials, broken equipment, or accident areas. Machine operators and maintenance teams are responsible for removing these abnormalities.

pany had four levels of management, all the important decisions were made at the top level.

"A typical company is one guy and his two brothers who own the entire firm," Bloom says. "They are the only people who would make any substantial decisions involving money, hiring, or product change. Everyone executes what they have been told to do. In America in a similar situation, plant managers have capital budgets; they can hire and fire and have some choice of product mix."

The reason for centralization is the degree of theft risk the Indian family owners face, Roberts says. The Indian court system has huge backlogs, so it is hard to rely on laws as a disincentive to theft.

Bloom adds: "If the owner lets the plant manager buy yarn, he may buy this from a friend paying 110% of market rates and then get a juicy kickback. So to get around that problem the owners typically



Months after the diagnostic phase

The average adoption rates of 38 key management practices are plotted monthly for the control group of 6 textile plants and the treated group of 14 plants on a scale of 0 to 1, where 1 means the average plant in the group had adopted all 38 practices, and zero means the average had adopted none. make all the major decisions."

Better management practices helped decentralize decision making, the researchers found. "Once I'm getting daily updates from the factory on outputs and inputs and efficiency, I don't need to be on the scene as many hours to check up on stuff," Roberts says. "For example, if I am monitoring daily yarn inventory and purchases I would notice suspicious jumps in prices or missing inventory.



Nick Bloom

"In our best managed firm, the family had only one adult male, so he had to be at the plant every day because they

do not use nonfamily members as senior managers. Having better data from the plant freed him up to open two more plants because he didn't need to be there every day."

Another conclusion of the field study was that modern management leads to computerization and probably a changing workforce.

"When you need to produce daily charts, you need computer-literate managers and analysts, so you start to change the educational composition of the factory," Bloom says. "This wasn't obvious to us in advance, but it could be one reason that in the United States, for example, it's harder and harder to earn a good living if you are not very well educated. You can see in India that these management practices are bad news for the illiterate factory worker and good news for the guy with more skills."

Some theoretical work by researchers suggests that computer literacy may drive a widening income gap, and this research would support that idea, Roberts says.

The study showed "substantial productivity gains from adopting lean manufacturing practices," says GSB economics Professor **Kathryn Shaw**, who is well known for her careful studies of firms' human resource management strategies and the productivity impact of management practices in U.S. steel mills. The Indian textile plant study, she adds, "is uniquely able to answer the question, Why don't more firms in developing countries like India adopt modern manufacturing practices?"

"The insider econometric methods used in this study and answers obtained," she says, "have produced a research paper that will be highly valued and quoted forever."

John Roberts: Expert on Industrial Organization

Research with Paul Milgrom explained how information differences between parties affect industrial behavior.

DRESSED IN A TANK TOP and funny hat on a warm spring day in 1989, **Scott Schaefer** was about to leave his undergraduate economics class by the back door when he noticed Professor **Paul Milgrom**, PHD '79, and a broad-shouldered guest professor with wavy hair and glasses staring at him from the front of the room. Schaefer took the look as a cue to approach and when he did, Milgrom asked, "Are you ready to go?"

Apparently, Schaefer's roommate had forgotten to pass along a message that Milgrom and **John Roberts**, an economist on the faculty of the Graduate School of Business, wanted to take him to lunch at the Stanford Faculty Club after class that day. Unlike Roberts, who was clad in a dark blue blazer, Schaefer had not dressed for the occasion.

At lunch, they discussed a paper Schaefer had written for class. "You should be an economist," they told him. Bubbling over from their attention, Schaefer acquiesced. He earned a doctorate at the business school in 1995 and today is a professor of economics at the University of Utah.

At a September conference at the GSB, Schaefer was among several of Roberts' former students and coauthors to present reflections of how his work and mentorship affected both the course of economic research and their lives. The conference, organized by Roberts' former students **Susan Athey**, PHD '95, now a professor at Harvard, and **Robert Gibbons**, PHD '85, now a professor at MIT, was an opportunity for veterans to step back and assess four decades of research while giving doctoral students a chance to witness these scholars present the history of their chosen field and Roberts' central role in it.

Roberts, the John H. Scully Professor of Economics, Strategic Management, and International Business, has been teaching at Stanford since 1980. He has published more than 70 articles in academic journals, 2 books, and 30 business cases. His work has ranged from using game theory to study public goods problems to running field experiments on the impact of improving management practices. Along the way, he has gained a throng of admirers among his students and colleagues.

Roberts' journey to academia began when he was still in high school in Winnipeg. Back then, his peers referred to him as "The Professor," but "it was not meant as a compliment. I suppose I was a bit of a know-it-all," he recalls. Then in 1962, in an introductory college economics course, he realized that he wanted to be an economist. "It seemed to answer so many questions, especially regarding the role of Keynesian fiscal policy in fighting unemployment," Roberts remembers. "Ironically, I have never done any research on such issues."

His best known research is in industrial organization, where he and Milgrom introduced the study of the strategic impacts of information differences between interacting parties on industrial behavior. Although their logic is often very subtle, their insights and methods



revolutionized the way industrial competition is modeled and led to adoption of these methods in other fields.

Their first effort in this direction was a paper titled "Limit Pricing and Entry Under Incomplete Information: An Equilibrium Analysis," which appeared in *Econometrica* in 1982. At the time, many economists thought limit pricing — the act of a firm purposefully setting low prices to deter new competitors — was irrational. Roberts and Milgrom showed that it would be rational if potential entrants to the same market took the price as an indicator of how low the incumbent's costs were and thus how tough a competitor it would be. Strikingly, however, they also said the potential entrant would, if it understood the economics of the situation, infer the incumbent's actual costs from observing its price and thus would enter the market in exactly the same circumstances as it would were it informed directly about the incumbent's costs. Still, the incumbent must reduce its prices from the monopoly level or it will be thought to be limit pricing but *Continued on page 37*

Executives' Words Contain Clues to Deception

Language may be a better predictor of a company's health than accounting reports.

JUST DAYS AFTER Bear Stearns collapsed and was sold for a pittance to J.P. Morgan Chase, rival Lehman Brothers was weathering the economic downturn pretty well, to hear chief financial officer Erin Callan tell it. In a quarterly conference call on March 18, 2008, she assured financial analysts that the company's businesses remained "strong." In fact, Callan used that word 24 times during the call, added "great" 14 times, and piled on "incredibly" 8 times. She used "challenging" 6 times and "tough" just once. "Well, that wasn't too bad," a *Wall Street Journal* writer blogged at the close of the call. Yet by September, after it became obvious that risky investments masked by accounting gimmicks might sink the company, Lehman had plunged into the largest bankruptcy in U.S. history.

Lehman shareholders, who lost most of their investment, might have had a better chance to divine the company's true plight if they had had the benefit of recent research by **David F. Larcker**, the James Irvin Miller Professor of Accounting, and **Anastasia A. Zakolyukina**,

a PHD candidate in accounting at the Graduate School of Business. Their research paper, "Detecting Deceptive Discussions in Corporate Conference Calls," essentially showed that it's possible to figure out when executives are likely to be lying about how their company is doing. In particular, they found that companies whose chief executives and chief financial officers used words and other linguistic patterns associated with deception later restated their earnings by a material amount.

More than three years in the making, the study was published last summer for Stanford's Rock Center for Corporate Governance. Larcker, a Rock Center senior faculty member who also directs Stanford's Corporate Governance Research Program, and Zakolyukina analyzed the transcripts of more than 16,000 U.S. quarterly earnings conference calls between 2003 and 2007 – specifically, the less rehearsed question-and-answer portion between analysts and executives. The research got a lot of media attention partly because it centered on material that almost any investor can obtain easily.

But what's most interesting to investors is that language patterns in conference calls appear to be a better predictor of negative financial surprises down the road than the more traditional accounting-based method. The latter analyzes differences between a company's reported earnings, which can involve executive discretion on various measures, and its actual cash flows. That model predicts financial restatements about 3% better than a random guess, while Larcker and Zakolyukina's model does 4% to 6% better than random.

That may not sound like much, but it's potentially a significant improvement for analysts and portfolio managers responsible for managing hundreds of billions of dollars in investments. "Ultimately, you could imagine using this to weed out big losers in your portfolio" before they go south, Larcker says. Larcker and Zakolyukina began their research by identifying words and categories of words that psychologists and linguists have shown to be related to deception. For example, CEOs trying to deceive are more likely to display extreme positive emotions, using words such as "fantastic" instead of merely "good" or "solid," and less likely to show extreme negative emotions.

They also were less likely to say "I" or "we," which imply personal ownership of a situation, and more prone to employ impersonal pronouns or phrases such as "the company" or "the team." They often made references to general knowledge with phrases such as "you know" and "everybody agrees." And they tended to make relatively short statements with few hesitation words, presumably because they had planned some answers in advance and preferred to move on quickly from their deceit.

To those well-established word categories, the researchers added several of their own. They looked at terms such as "shareholder



value" and "value creation," phrases commonly used by corporate executives. And they found that deceptive executives were less likely to use them. The likely reason: They may fear that statements appearing to promise shareholder value creation might later be used against them in lawsuits.

The researchers created electronic documents from transcriptions of each conference call's Q&A session, obtained from FactSet Research Systems Inc., with answers by both the CEO and the CFO. Using serious

restatements of income in the same quarters identified by the corporate governance analysis firm Glass, Lewis & Co., they classified each of those documents as truthful or deceptive. Then, in each document, they counted the words and phrases from their list of deceptive language to determine any correlation.

Using Stanford's computer clusters to test the model, they ran the resulting mathematical model for determining deceptive conference calls on a different set of conference calls. For a direct comparison, they also crunched the numbers on each company's quarterly financial data to test the traditional accounting model of determining potential restatements. The result: Larcker and Zakolyukina's method was about twice as good as the accounting model at predicting problems down the road.

The research has plenty of limitations, Larcker says, which is why the linguistic method correctly classified a random sample of conference call narratives as truthful or deceptive between 50% and 65% of the time — not, say, a more definitive 80% to 90%. For one thing, the study assumes that CEOs and CFOs know something is amiss in their companies at the time of the conference call, though it's quite possible they did not know and thus weren't being deceptive. Still, Zakolyukina notes, she and Larcker deliberately chose to look at large restatements that also were associated with serious accounting problems such as the disclosure of a "material weakness," a change of an auditor, or a late financial filing. In those cases, it's more likely executives knew they at least weren't telling the whole truth.

What's more, while the research assumes that the Q&A portion of conference calls is largely unrehearsed, that's not always the case. Individual executives also may have their own unique speaking patterns that match deceptive language even when they're not actually trying to lie. On the flip side, other executives who are lying may have speech patterns that don't fit into the usual pattern of deception.

For all those reasons, not everyone is convinced the research will be useful. One skeptic is Joe Navarro, a former FBI expert in behavioral analysis and author of *What Every BODY Is Saying: An Ex-FBI Agent's Guide to Speed-Reading People*. On *Psychology Today*'s blog, he wrote that CEOs are inherently cheerleaders, so their extremely positive language has dubious value for predicting actual lies. Even if they do appear to be lying, he says it's not necessarily clear that they're lying specifically about the company's financial condition.

Larcker concedes that the research is just a start and that others will need to take it further to turn it into a usable tool, though Boston-based Business Intelligence Advisors Inc. appears to use similar methods already. "It's a little early," Larcker says. "But we think it's worth pursuing and refining." Nonetheless, he says he has received many calls and emails from investors, analysts, and portfolio managers, some of whom sarcastically thanked him for exposing their own methods.

"It's some of the best research to detect lying CEOs ever done,"

Think you can spot a CEO bluffing? Test yourself at BizOnline. Stanford.edu/language



David Larcker and Anastasia A. Zakolyukina

says former hedge fund manager and private investor Cory Johnson, now a journalist with Bloomberg TV. "He's found an empirical way to find the cockroaches."

It's not the first time Larcker's work has challenged conventional wisdom. His past research has flouted the assumptions of corporate governance ratings firms, company board members, and lawmakers. For a study released in June 2010, for instance, he joined with Stephen A. Miles, vice chairman of the executive search firm Heidrick & Struggles,

to survey 140 CEOs and corporate board members on how well they planned for the time their companies would need a new CEO. Most directors thought they did a good job at succession planning, even asking Miles and Larcker whether the survey was a joke. But it turned out that more than half of companies surveyed could not immediately name a successor to their current CEO. (*See story, page 33.*)

Larcker raised perhaps the biggest ruckus with a study released in September 2009 that examined the correlation between a company's rating from governance rating firms such as RiskMetrics Group Inc. and its financial performance. Larcker, with coauthors **Robert Daines**, the Pritzker Professor of Law and Business at Stanford Law School, and **Ian Gow**, PHD '09, flatly found little correlation at all, especially for RiskMetrics' ratings. Earlier this year, that firm dropped its previous ratings system and instituted a new one. Larcker and governance experts such as James J. Hanks Jr. of the corporate law firm Venable LLP say it's not much different, so it's tough to tell whether Larcker's research forced the change. RiskMetrics, whose acquisition by investment analysis firm MSCI Inc. was completed in June, did not return several emails and phone calls.

Former and current students and colleagues invariably cite Larcker's independent streak. "He digs into the data," says David Chun, CEO of executive compensation data provider Equilar of Redwood City and a student of Larcker's during the professor's 20 years at the Wharton School. "He definitely takes a more challenging view of the consensus."

Joseph A. Grundfest, the W.A. Franke Professor of Law and Business at Stanford Law School, agrees: "Dave has a terrific sense of what's important in the real world and then brings a very rigorous empirical approach to testing ideas that often pass for 'common wisdom' to demonstrate that they might not actually be that wise."

Larcker isn't the usual picture of an academic. He repairs and rides Harley-Davidson motorcycles, a passion apparent in the black Harley T-shirt, cycle boots, and jeans he often wears. On his office desk is a lava lamp with black goo issuing from a small canister labeled Genuine Harley-Davidson Oil, and prints of classic Harley models are tacked on one wall. The other wall is crammed with books such as *Logistic Regression and Corporate Financial Disclosure 1900–1933* and comics legend Gary Larson's *The Far Side Gallery*.

Larcker's research is one big reason Stanford's corporate governance work has a sterling brand, Heidrick's Miles says. Together, the Rock Center and the Corporate Governance Research Program are "seen as one of the tier-one think tanks in corporate governance," Miles says.

That reputation may be further burnished later this year with the publication of a book, tentatively titled *Governance Matters*. Larcker didn't intend to become an author. Written with governance program case writer **Brian Tayan**, MBA '03, the book will be based on a collection of case studies he and Tayan wrote from Larcker's research. Until Larcker came to Stanford in 2005, he hadn't written a single case study. But he realized that if he didn't, he would have no material to teach his classes early next year — a sign of his pioneering work in corporate governance. ●

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

Faculty Rebut Banks' Argument for Leverage

WHEN THE FINANCIAL markets crashed two years ago, banks and financial institutions needed to be bailed out because of their high degree of leverage. Since then, regulators, economists, and the banking industry have jousted about the question of how much equity banks should hold.

The prevailing argument by the industry and its allies is that increasing equity requirements will weaken banks and increase the cost of borrowing for everyone because equity, or what bankers call capital, is "expensive." But is that really the case?

In a new research paper, **Anat Admati**, the George G.C. Parker Professor of Finance and Economics, and her colleagues argue that this is not the case. "Quite simply, bank equity is not expensive from a social perspective, and high leverage is not required in order for banks to perform all their socially valuable functions, including lending, taking deposits, and issuing money-like securities," they wrote.

What's more, the researchers argue, increasing capital requirements would produce widespread social benefits. "Our analysis leads us to conclude that, starting from current capital requirements, the social benefits associated with significantly increased equity requirements are large, while the social costs, if any, are small."

"Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity Is Not Expensive," a research paper exploring the question, was written in

August by Admati; **Peter M. DeMarzo**, the Mizuho Financial Group Professor of Finance at the GSB; **Paul C. Pfleiderer**, the C.O.G. Miller Distinguished Professor of Finance at the GSB; and Martin F. Hellwig of the Max Planck Institute for Research on Collective Goods in Bonn, Germany. The 62-page policy paper was designed to be part of the ongoing debate about financial regulation, and in November, the *Financial Times* of London printed a letter signed by 20 economists endorsing the paper's proposals.

The paper and letter rebut arguments against higher equity requirements, calling on regulators to increase them significantly and to exert stricter control over equity payouts, such as dividends to stockholders, by banks.

As discussed in the paper, equity represents the share of a company's total value held by shareholders in the form of common stock. Equity requirements therefore do not require banks to "set aside" funds rather than use them to make productive loans, a common misconception. (Many companies, such as Apple, are virtually 100% equity financed, and this does not constrain their ability to invest.)

"As a result, these equity requirements can be used to improve the safety of the banking system and the overall economy without sacrificing growth; indeed, by reducing the risk of a future crisis, growth



Increasing equity requirements would not be expensive and would bring widespread social benefits, study says.

would likely be enhanced," Admati says.

The paper does not argue for a specific level of equity capital but instead stresses that regulators should stop fearing its use. "The answer isn't a magic number; it's a different mindset," Admati says. In the letter, the economists said, "If a much larger fraction, at least 15%, of banks' total, non-risk-weighted assets were funded by equity, the social benefits would be substantial. And the social costs would be minimal, if any."

World banking regulators, at a meeting in Basel, Switzerland, in September, agreed to increase the amount of common equity required for banks to 4.5% (with a buffer that boosts it to 7% at times) of assets from about 2%. Admati and coauthor DeMarzo said in an interview that, while they believe this is a step in the right direction, equity requirements should be increased even further. They also were critical of the long phase-in period — to 2019 — in the Basel proposal.

Here are some of the key arguments made by opponents of higher equity requirements — and the response by the researchers:

• The banking industry argues that increased equity requirements will increase their funding costs because equity is risky and requires a higher return. Forcing banks to use equity rather than debt to finance

Hear Anat Admati explain how taxpayers subsidize bankers' risk taking at BizOnline. Stanford.edu/equity.

their business drives up their costs, and these will be passed on to borrowers. The industry also is concerned that increased equity requirements would reduce the return on equity of banks.

That argument is "fundamentally flawed," the researchers maintain. When leverage — the degree to which an institution is using debt relative to equity to finance its operation — is reduced, the riskiness of equity also is reduced. That, in turn, has the effect of reducing the cost of equity and, appropriately, the average return on equity. This does not by itself indicate any change in the value of banks to their shareholders.

 Banks prefer debt financing to equity because it lets them decrease the amount of taxes they pay and enjoy the benefits of implicit guarantees by the government.

It's true that current tax codes encourage debt financing over equity financing, the researchers say, but that government subsidy encourages banks to borrow too much. The letter states: "It is paradoxical to subsidize debt that generates systemic risk and then regulate to try to limit debt. Debt and equity should at least compete on even terms." Any subsidies given to banks should be given in ways that subsidize socially valuable lending activities, Admati says.

 Increasing equity requirements would force banks to reduce lending and perhaps other socially desirable activities, the industry argues.

Admati and her colleagues believe that argument is incorrect for a number of reasons. Banks, for example, can issue additional equity to meet higher capital requirements and use those funds to lend. Moreover, "banks' ability to provide social value would be enhanced if they were better capitalized, because they would be less likely to make excessively risky investments or to pass up valuable investments because of problems created by high leverage."

In addition to requiring higher equity, the researchers recommend temporarily restricting bank dividend payouts to help banks quickly and efficiently increase their equity capital and provide additional funds for lending.

Some have suggested instead that banks be taxed for a "bailout fund," but the researchers say high leverage encourages excessive risk taking, and a fund that guarantees a bailout exacerbates this problem. If banks use significantly more equity funding, there will be less risk taking at the expense of creditors or governments.

Debt that converts to equity, so-called "contingent capital," also has been discussed in regulatory circles as a tool that could make banks more stable. The researchers say it is "complex to design and tricky to implement. Increasing equity requirements is simpler and more effective." •







Most Companies Unprepared to Replace CEOs, Study Finds

MORE THAN HALF of companies today could not immediately name a successor to their CEO should the need arise, according to new research conducted by Heidrick & Struggles and the Rock Center for Corporate Governance. The survey of more than 140 CEOs and board directors of North American public and private companies reveals critical lapses in CEO succession planning.

"The lack of succession planning at some of the biggest public companies poses a serious threat to corporate health, especially as companies struggle toward a recovery," said Stephen A. Miles, vice chairman at leadership advisory firm Heidrick & Struggles and a global expert on succession planning. "Not having a truly operational succession plan can have devastating consequences for companies — from tanking stock prices to serious regulatory and reputational impact."

Stanford Graduate School of Business Professor **David Larcker** added, "We found that this governance lapse stems primarily from a lack of focus: Boards of directors just aren't spending the time that is required to adequately prepare for a succession scenario." Larcker, the James Irvin Miller Professor of Accounting, is a senior faculty member of the Rock Center for Corporate Governance, a joint initiative of Stanford Law School and the Stanford Graduate School of Business.

The 2010 Survey on CEO Succession Planning, conducted in spring 2010, surveyed CEOs and directors at large- and mid-cap public companies in the United States and Canada, with 10% of respondents also from large private companies.

Stock Options Lift Performance of Executives More Than Minions

IT HAS BECOME an article of faith in Silicon Valley that stock options create incentives for employees to work harder and smarter, in turn rewarding the companies that lavish options on the workforce with better performance and greater shareholder value.

But does that assumption stand up to careful scrutiny? It depends on who is receiving the options, according to a new study by accounting Professor **Ron Kasznik** of the Graduate School of Business; **Nicole Bastian Johnson**, PHD '05, of the University of California–Berkeley's Haas School of Business; and David Aboody of UCLA's Anderson School of Management.

"Our findings provide evidence that options provide incentive effects at the executive level that are sufficiently large to be reflected in firm performance but no evidence for similar incentive effects for nonexecutive employees," the authors wrote.

Their paper, "Employee Stock Options and Future Firm Performance: Evidence from Option Repricings," was published in the *Journal of Accounting and Economics* in 2010. Learning that granting options to a broad selection of employees may not be an effective tool is the paper's most important contribution to the literature, Johnson said.

The researchers identified 1,364 companies with employee stock options whose stock price declined by 30% or more annually in any of the years between 1990 and 1996. Of those companies, 300 repriced and formed a basis of comparison to a control group of the 1,064 that didn't.

The researchers theorized that when a company's stock price falls below the exercise price of an option, much of any incentive effect the options may have had disappears. Repricing those options should restore those incentives, the researchers assumed. A situation in *Continued on page 34*

Anat Admati

Peter M. DeMarzo

Knowledge Network

STOCK OPTIONS: Continued from page 33

which options have been repriced should be similar to that of a newly instituted optiongrant program.

So the researchers first asked whether companies that repriced outperformed the companies that didn't, as measured by cash flow and operating income over one, three, and five years. Companies that repriced options significantly outperformed the control group, and the performance gap grew over time.



Ron Kasznik

Johnson and her colleagues also found that companies that had repriced options for only executive-level employees significantly outperformed the companies that had not repriced at all. But companies that repriced options for only non-executive employees did not outperform the control group.

While Johnson is confident that the study's results are meaningful, she pointed out some caveats.

The researchers chose to study performance before significant accounting changes were made to the treatment of options, particularly the rule instituted in 2005 requiring companies to expense the cost of options. However, while that rule may have prompted some companies to cut back on granting stock options, the researchers do not have any reason to assume it would have changed the effect that option grants have on employee behavior — the focus of their study.

The Downside of Networking

IN THE EARLY 1950s, 300 actors, writers, and others suspected of being communists were blacklisted in Hollywood and excluded from the workforce. A recent study, coauthored by **Hayagreeva Rao**, the Atholl McBean Professor of Organizational Behavior and Human Resources, analyzes how social networks of the day resulted in hundreds of individuals whose names were not on the list being denied jobs.

About 60 years later, lessons still can be drawn about how stigma may spread through relationships. For instance, proof of drug use by athletes with one team may result in advertisers pulling their support for the entire sport. Partners or suppliers of companies accused of operating overseas sweatshops may be tainted despite upstanding labor practices.

During the Red Scare, artists not on the list created by the House Committee on Un-American Activities saw their chances of finding employment drop by 13% if they previously had worked with someone named on the blacklist.

Actors faced a 20% drop in employment if they had worked with writers who were later blacklisted.

Elizabeth Pontikes, PHD '08, of the University of Chicago Booth School of Business, Giacomo Negro of Emory University, and Rao coauthored the study, titled "Stained Red: A Study of Stigma by Association to Blacklisted Artists During the 'Red Scare' in Hollywood, 1945 to 1960," which was published in the June 2010 issue of the *American Sociological Review*.

A higher profile did not necessarily offer shelter. The researchers said artists who appeared in a top 10 box-office film were 16% less likely to find a job after a coworker was blacklisted, compared with a 10% drop for artists in less successful films. Oscar winners, however, were partly shielded. The odds of an Oscar-winning artist finding a job after a coworker was blacklisted were reduced by 9%.



Rice Joins GSB Faculty, Global Business Center

School also names five junior professors.

FORMER SECRETARY OF STATE **Condoleezza Rice** has joined the faculty of the Graduate School of Business as a professor of political economy and a director of the Center for Global Business and the Economy. The school also added five junior academics to the tenure-track faculty this academic year and named an alumna, **Maria Jenson**, MBA/MA '93, executive director of the global center.

The GSB's Center for Global Business and the Economy, which coordinates, leverages, and oversees all of the global activity now has three faculty directors: Rice, **Bill Barnett**, and **John Roberts**.

"Condi's enormous wealth of knowledge, experience, and personal relationships in the arenas of global business and politics will be a great asset to the school," Dean **Garth Saloner** said in announcing her appointment.

Rice is also a professor of political science in the School of Humanities and Sciences, and Thomas and Barbara Stephenson Senior Fellow on Public Policy at the Hoover Institution. Her research examines questions in international politics, primarily those that relate to security policy, good governance, and the development of institutions at the domestic and international level. Her previous academic work focused on civil–military relations and the politics of Europe, Central Europe, and the former Soviet Union.

From January 2005 to January 2009, Rice was the 66th U.S. secretary of state. She first joined the Stanford faculty in 1981, and she served as the university's provost from 1993 to 1999.

Jenson, who holds three Stanford degrees — a bachelor's and dual master's degrees in business and higher education administration — has worked for Stanford and for General Mills in marketing. She has traveled for business and personal interest to 50 countries on 6 continents.

"With these new appointments," Saloner said, "we rededicate ourselves to shaping the ideas that help managers lead in the context of global change, to preparing our students and executive education participants for those roles, and to ensuring that the innovation that takes place at the GSB is known around the world so that we can influence the practice of management everywhere and attract the best and the brightest to Stanford."

The school also welcomed five new assistant professors: John Beshears, Konstantinos "Kostas" Bimpikis, Sharique Hasan, Dan Iancu, and Nicolas Lambert.

John Beshears is an empirical financial economist who has examined behavioral biases in household financial decisions. He also has published in the fields of theory of the firm and empirical corporate finance, specifically the comparative performance of joint ventures versus solo firms on oil and gas drilling projects in the Gulf of Mexico, to address questions of whether organizational form impacts firm performance. He earned his PHD in business economics from Harvard in 2009.

Kostas Bimpikis and Dan Iancu are new assistant professors of operations, information and technology, both with doctorates from MIT. Bimpikis developed a novel framework for the analysis of information aggregation in large societies that combines network forma-



Former secretary of state and Stanford provost Condoleezza Rice is now on the faculty of two of Stanford's seven schools.

tion and information exchange through communication. He joined the faculty in September but will spend the 2010-11 academic year as a postdoctoral fellow at Microsoft.

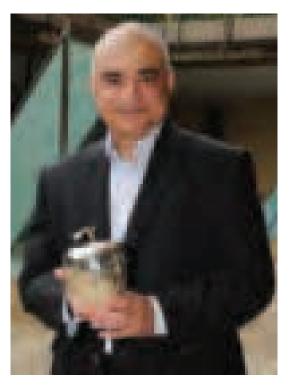
Iancu works on multistage adaptive optimization. The Institute for Operations Research and Management Sciences (INFORMS) chose his paper on linear affine rules as the best student paper in optimization. He joined the faculty in September but will spend the 2010-11 academic year as a postdoctoral fellow at IBM.

Sharique Hasan, assistant professor of organizational behavior, is a sociologist trained at Carnegie Mellon who studies networks and careers as they evolve. Hasan, who also has published on gender differences in social networks, is tracking the structure of individual networks over time as newcomers are integrated into the organization.

Nicolas Lambert, assistant professor of economics, earned a doctorate in computer science from Stanford, but his research has moved into the area of information economics and market design. His thesis focused on how to get an expert to provide the best possible information about probabilistic outcomes. Lambert's additional work is related to the developing field of testing experts.

In addition, **Nir Halevy** has been hired as acting assistant professor of organizational behavior. He earned his PHD in social psychology and management from the Hebrew University in Jerusalem. He studies conflict and cooperation within and between groups and teams. His dissertation project created a new paradigm for distinguishing in-group love and out-group hate as motives for individual participation in intergroup conflict.

Knowledge Network



Professor Baba Shiv was presented the Jaedicke Silver Apple in October for service to alumni groups.

Shiv and Three Alums Thanked for Volunteer Service to School

AWARDS PRESENTED at Alumni Weekend honored three longtime alumni volunteers and a faculty member who has met with alumni audiences around the world. The four were recognized for their significant impact on the school.

The Gardner Volunteer Leadership Awards went to **Bill Reller**, MBA '60; **Jeff Chambers**, MBA '80; and **Beth Gibson Sawi**, MBA '80. Marketing Professor **Baba Shiv** was honored for his service to alumni.

Reller, Chambers, and Sawi worked to keep their classmates connected to the school by serving on reunion committees, working with students both in the classroom and at conferences, being members of the Alumni Consulting Team, or giving their time to serve on the school's Advisory Council or on development projects. The Gardner Volunteer Leadership Award is presented annually to individuals who have performed outstanding service to the school. It is named for the late John Gardner, founder of Common Cause and a business school faculty member.

"What makes this place great are the thousands of alumni who volunteer their time and expertise each year," Dean **Garth Saloner** said, thanking the three recipients during a ceremony Oct. 22.

The same ceremony honored Baba Shiv, the Sanwa Bank, Limited, Professor of Marketing, with the Jaedicke Silver Apple. In his first year as a faculty member, Saloner recalled, Shiv agreed to give a onehour talk to an alumni group. He ultimately faced a standing-roomonly crowd that peppered him with questions. He has since addressed dozens of alumni audiences around the world.

SOCIAL INNOVATION FELLOW: Continued from page 13

performance. However, their performance doesn't usually show their aptitude, he argues. Lower-achieving students can be disengaged and bored with the course material. Their teachers may not expect much from them, so they don't expect much from themselves. "Research shows that treating students as if they're dumb won't work," Saaris says. "What does work is challenging them with difficult material. It inspires them."

However, low expectations are not the only reason for underrepresented students. While doing research, Saaris found that enrollment could be low in some schools because students might not know about the benefits of advanced classes. Others decline enrolling out of fear of being ostracized by their friends. Or they may think they're unprepared for the large workload. Whatever the reasons, Saaris' nonprofit works directly with individual school officials to decipher why certain kids are not enrolling. Then, both parties develop an action plan

The number of Latino and/or low-income students in advanced classes increased to 1,523, and the test pass rate increased 11%.

that best suits the school's needs on how to find and enroll those kids.

In 2008, Saaris and his organization came to California to work with a school district that had a legacy of inequalities in its classrooms. San Jose Unified School District lost a desegregation lawsuit in 1985 that resulted in a court order to integrate classes. But decades later, district officials realized that their efforts to integrate advanced classes were fruitless. Since the court order, San Jose, unlike schools in many districts, permitted students to enroll in advanced coursework regardless of their grade point average or test scores. That did not mean, however, that students from all income and ethnic groups signed up in similar proportions.

Dorothy Kennedy served as the assistant principal for instruction at Leland High School in San Jose when Saaris presented his idea to the district. Dubious at first but impressed with his results, Kennedy, along with others at Leland and staff from two other high schools, joined Saaris to find and encourage the students best suited for advanced coursework.

Kennedy, Saaris, and other Leland High School staff evaluated the students based on test scores, grades, prerequisites, and family income. After they chose students to encourage, Kennedy took the time to talk to each individually about enrolling in advanced coursework. The majority of students they encouraged were Latino and/or low-income, with midrange GPAs, spanning 2.0 to 3.0, and mid-range test scores on California Standards Tests. "The kids were so grateful that someone took the time to notice them," Kennedy says. From 2008 to 2011, the district-wide number of Latino and low-income students in advanced classes went from 710 to 1,523 students, and the test pass rate increased 11 %.

In June 2010, Saaris was awarded an \$80,000 fellowship from the GSB's Center for Social Innovation to help him expand his organization. The Social Innovation Fellowship, created in 2008, provides oversight as well as financial support to its recipients for a year. It was just extended to the year 2014 and will include alumni who graduated within three years of the application deadline. Saaris was the third graduate to receive the fellowship.

Currently he estimates that 640,000 students in the United States are not in advanced courses when they should be. With financial backing from the Center for Social Innovation and the Draper Richards Foundation, he hopes to reach 4,400 schools by 2020. In the next year, the organization will find 3,000 more "missing students." •

ROBERTS: Continued from page 29

have high costs that would encourage entry.

"It was one of the most exciting times in economics that I ever observed and could ever imagine," Roberts says. "Traditional wisdom was being turned on its head every day." He remembers presenting their paper to some of the "major stars of economics," and his assertion that "equilibrium limit pricing does not deter entry" was met with disbelief.

At least one of their senior colleagues found the entire idea of building theories based on private information — meaning information not directly observable by others — to be destructive to economics as an empirical science, Milgrom recalls. "Thank God for John who said, 'No, we're on to something. Let's stick with it.' And we did."

Today the role of information differences in explaining behavior is accepted among economic theorists, and hundreds of researchers have built upon the initial research, exploring predation and other strategic behavior in industrial organization.

But economics is not the only thing that takes up Roberts' time. The students and colleagues who've spent hours at his table know the native of Canada is also somewhat of a gourmet. He is an excellent cook, and during the winter holidays, he annually spends two days in the kitchen preparing traditional cassoulet, a complex French pork and bean recipe.

Of all his work, Roberts indicates that he is proudest of the textbook he coauthored with Milgrom, titled *Economics*, *Organization, and Management*, which was the first to apply economics to the organization and management of companies. The book has garnered many thousands of citations in scholarly articles, an unparalleled accomplishment in economics. Reading it first as a graduate student, Athey said she was struck by the fact that "every single paragraph can be perfectly formalized in a model. How you can fill an entire book with perfectly crafted paragraphs is an amazing feat."

The Economist called Roberts' other book, The Modern Firm, the best business book of 2004. In it, Roberts analyzes the interaction between the optimal organizational design of business firms, their strategies, and the business environments in which they operate. He argues that changes in organizational design can be predictable and that they can improve performance and growth as long as these factors are examined in a holistic way.

"Every single paragraph [of Roberts' book Economics, Organization, and Management] can be perfectly formalized in a model. How you can fill an entire book with perfectly crafted paragraphs is an amazing feat."

Recently, Roberts, with Stanford economics Professor **Nick Bloom** and other young scholars, has been studying experimentally the effects of improving management practices. When Bloom first considered an academic career, a mentor connected him with Roberts in London. Bloom expected to meet the venerable figure in one of the many restaurants or cafes suitable for an academic discussion. Instead, Roberts led them to a pub near Bloom's office called the Drunken Captain, where Bloom noticed a strange, pungent odor wafting from Roberts' direction. He tried to ignore it. After a beer, Roberts "said he had just been out shopping for strong cheeses," Bloom recalled. "Since that time he has been a very easy person to work with." •

>Faculty Publications

ACCOUNTING

Decentralized Capacity Management and Internal Pricing Suni Dutta and Stefan Reichelstein Review of Accounting Studies (Vol. 15, No. 3), September 2010

CORPORATE GOVERNANCE

Endogenous Selection and Moral Hazard in Compensation Contracts Christopher S. Armstrong, David F. Larcker, and Che-Lin Su Operations Research (Vol. 58, No. 4) JULY-AUGUST 2010

Heterogeneity and Peer Effects in Mutual Fund Proxy Voting **Gregor Matvos and Michael Ostrovsky** *Journal of Financial Economics* (Vol. 98, No. 1), OCTOBER 2010

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Morally Motivated Self-Regulation David P. Baron American Economic Review

(Vol. 100, No. 4), SEPTEMBER 2010 Does Cheaper Mean Better? The

Impact of Using Adjunct Instructors on Student Outcomes Eric P. Bettinger and Bridget Terry Long Review of Economics and Statistics (Vol. 92, No. 3), AUGUST 2010

Why Do Firms in Developing Countries Have Low Productivity? Nicholas Bloom, Aprajit Mahajan, David McKenzie, and John Roberts American Economic Review (Vol. 100, No. 2), MAY 2010

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Newsmakers

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



Investor David Sze, MBA '93, says he made the right call investing in Facebook but missed on Twitter.

Firm Snared Facebook, Let Twitter Fly Away

The most successful venture capital investments often don't follow the crowd. Greylock Partners invested in Facebook in early 2006 when it was still a closed network found only at colleges.

"It was not an easy decision for our partnership. We were mocked publicly when we announced it," Greylock's **David Sze**, MBA '93, told the *New York Times*. "It was a risky call at the time and, knock on wood, it appears to have been a smart one."

But nobody's perfect. Speaking with TechCrunch, Sze admitted making a mistake when he considered investing but did not in that other vastly popular social network, Twitter. Every venture capital firm has a wall of shame, Sze said, and Twitter is definitely on Greylock's.

Alum's Book Best Seller North of the Border

A novel about a mixed-race couple that adopts an Indian child hovered near the top of Canada's bestseller list for most of 2010.

Secret Daughter, by **Shilpi Somaya Gowda**, MBA '96, was



Shilpi Somaya Gowda

marketed in Canada as "uniquely Canadian" after someone in the publisher's Canadian office realized that Gowda was born in Toronto, according to the *Globe and Mail*. The Canadian edition was brought out as a trade paperback, rather than a hardcover, assuring higher sales. And when an astute buyer at the warehouse store Costco recognized the book's potential and stocked it, sales took off.

Gowda, who has spent most of her life in the United States, is working on a second novel about a cross-cultural family. "I am the child of immigrants myself," she said, "and I have always been fascinated by how the choices these people make on your behalf, generations before you, end up driving a great deal of what your life ends up being."

Inventor's Magnetism Leads to Cover Story

Despite the fact that most inventions never make it to market, **Andre Woolery**, MBA'06, turned his prototype for a magnetic wristband for klutzy handymen into a product sold in 1,700 Lowe's home improvement stores across the country. He was one of two "agents of invention" featured in a *Black Enterprise* cover story about successful inventor/entrepreneurs.

Woolery developed a prototype for the MagnoGrip Magnetic Wristband when he was a business school student, then spent his summer break making a business plan and shopping his prototype to hardware stores within a 20-mile radius of the Stanford campus. He listened closely to their feedback.

"What's important to understand is 'no' doesn't necessarily mean your product or idea is not good," Woolery told the magazine. "We just needed to keep plowing away, and eventually we'd be able to prove to them the product makes sense and is something they should have in their stores."

Persistence paid. After four years, Woolery estimated that he had sold 140,000 units and earned more than \$1 million in revenue.





Erik Budde, MBA '98, found employees through a virtual hiring hall.

Remote Tech Workers

There's no place like Silicon Valley to start a business, right? But try finding local employees you can afford.

"We wanted to keep our burn rate low because we were spending our own money," **Erik Budde**, MBA '98, told the *San Francisco Chronicle.* "To hire someone in the Bay Area is going to cost you \$100,000."

Budde is founder of RVParking.com, a startup that employs one local engineer plus seven distant part-timers. He found his long-distance employees through a virtual hiring hall called oDesk, one of several sites that specialize in global hires for beginner businesses.

Planned-Community Pioneer Profiled in Book

As a group of land-use professionals prepared a book about **Chuck Cobb**, MBA '62, and the communities he developed during the '70s and '80s, Cobb reflected on that part of his career in an interview with the *Longboat Observer*, the hometown newspaper of one of the communities featured in the book.

Although the island town of Longboat Key, Fla., is lovely, Cobb told the paper he'd give it a grade of B or B- overall. "The beaches are as beautiful as any. The quality of the buildings and the landscaping is also very high," he said. But as it grew, the community resisted outsiders — at one point even protesting the introduction of a supermarket for fear that people from the mainland would cross the bridge to shop at it.

"I'm disappointed that there wasn't a greater encouragement of visitors and encouraging people to rent their homes. When you don't have destination resorts and don't have families, you don't have the commercial developments that are their normal byproducts," Cobb said.

Unlike many Sunbelt developers of the time, Cobb tried to build sustainable, dynamic communities with the physical and cultural amenities to support both families and visitors. He also worked with Florida's Gov. Reubin Askew to create the state's pioneering growth management law, the Environmental Land and Water Management Act of 1972, which strengthened the requirement that Florida developers provide infrastructure for the communities they build.

However Cobb feels about the outcome at Longboat Key, it is

obvious that most of his ventures into community building were a success. The working title for the book about him — *Smart Growth: Master-Planned Communities Developed by Chuck Cobb* — says it all.

My Gut Tells Me It's Time to Take My Medication

"Hello, this is your stomach calling. Time to take your meds."

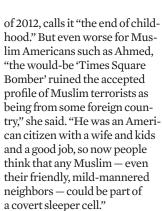
Well, that's not exactly how it works, but venture capitalist and inventor Andrew Thompson, MBA/MA'89, has come up with an idea no less intriguing - an ingestible, 1-millimeter-square silicon chip that helps you keep track of your medicine. The device, called a raisin, which is in development, is embedded in a pill, swallowed, and activated by stomach fluids. It then sends a message to a small computer worn on your body. When you miss a dose, the computer relays a message to your cell phone, which in turn alerts you or your caregiver.

Thompson hopes to have the raisin on the market in 2012, *Bloomberg BusinessWeek* reported.

In answer to the obvious question, Thompson assured the magazine that the chip is safe to eat. He should know — he's tried it. "There's more silicon in a banana," he said.

Muslim Americans' Road Gets Rougher

The bombing of the World Trade Center was a shock for all Americans. **Fareeda Ahmed**, MBA Class



Ahmed was interviewed by Indybay.org, the voice of the San Francisco Bay Area Independent Media Center, shortly after she entered business school in September.

"If there is a silver lining here, it's that today's rage and intolerance provides an opportunity for reconciliation," she said. "Inclusiveness and tolerance are core American and Islamic values, and Muslims come from the same religious lineage as Christians and Jews. Realizing our commonalities is ultimately what will unite us in the fight against global terrorism."

Jewish Convert Warns Against Assumptions

When *JTNews*, a Washington State-based news source for the Jewish community, published an article in which **Rose Yu**, MBA '88, was identified as being "not Jewish," Yu, who is a Jewish convert, decided it needed an answer.

"Neither my looks nor my name announce my Jewishness," she wrote in an op-ed. "What troubles me was why it was necessary to draw that distinction. By taking a closer look at how we decide who we are, we have the possibility of transcending some of the historical biases and prejudices that keep us from welcoming the stranger."

Yu was born in Taiwan and moved to the United States as a child. Sixteen years after marrying her business school classmate **Stephen Brown**, who is Jewish, Yu and her children decided to convert.

"As the High Holidays approach, I am reminded of the remarkable life I've been given and my gratitude that I can finally accept myself as being both Jewish and Chinese," she wrote.



Chuck Cobb, MBA '62, who developed the island town of Longboat Key, Fla., says he regrets that the community hasn't been more open to outsiders.

How will the GSB prepare you to lead?

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When Lindsey Barnes arrived at the GSB, she was comfortable with intellectual debate but far less confident in her ability to directly address challenging interpersonal situations. She admits she was conflict averse.

That all changed when she participated in Leadership Labs as a first-year MBA student, putting herself through intense scrutiny as she and her classmates acted out tough business scenarios. She ended up being one of the winners of the Executive Challenge, the day-long case competition that serves as a final exam for the labs.

The experience so inspired and transformed Lindsey that she was honored to serve as a prestigious Arbuckle Leadership Fellow, one of the selected second-year students who will coach first-years to help them develop their own leadership skills.

"Leadership Labs simulate real-life executive environments — layoffs, hiring, firing. It's different than sitting in classrooms. It's about actually practicing so that when you face them in real life, it's not a surprise."

Lindsey Barnes, MBA Class of 2011

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