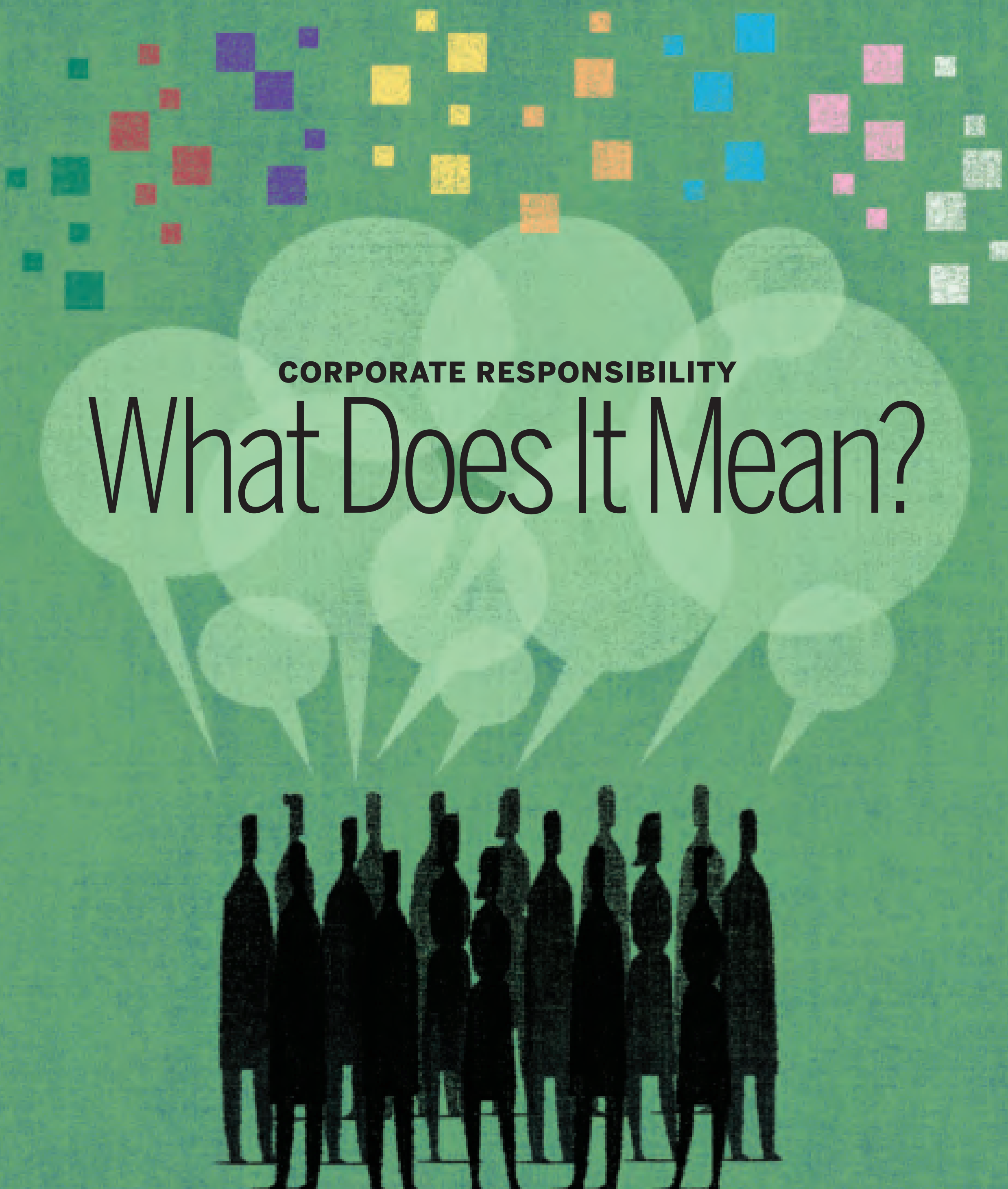
STANFORD BUSINESS

MAY 2007



CORPORATE RESPONSIBILITY

What Does It Mean?

Jacqueline Novogratz Reinvents Investment in Developing Countries

Truly Memorable Classes

Investing in Faculty: Supporting the Best and the Brightest

How Associate Professor Romain Wacziarg, the **Moghadam Family Faculty Scholar,** demonstrates the importance of attracting and retaining a new generation of rising stars.

The Scholar: Romain Wacziarg, an associate professor of economics and an associate director of the Center for Global Business and the Economy at the Stanford Graduate School of Business, is dedicated to multidisciplinary collaboration. His research bridges population genetics, anthropology, political science, and economics to determine the effects of cultural differences on wealth creation across nations. He brings that context to the MBA classroom, such as in his course *Nonmarket Strategy,* which addresses managerial issues in the increasingly interrelated social, political, and legal environments. In recognition of his outstanding scholarship, Wacziarg is a recipient of an inaugural grant from the Stanford Presidential Fund for Innovation in International Studies that encourages cross-campus partnerships.

The Need: The competition for world-class faculty has never been more intense. As we develop more multidisciplinary opportunities for students, we must keep the faculty pipeline full. Our ability to achieve our mission depends on attracting and developing a new generation of teaching and research luminaries.

Why Give: In order to recruit, retain, and recognize our faculty, financial support is critical. "Our superior faculty drives the success of the GSB as the best business school in the world," says Hamid Moghadam, MBA '80 and CEO of AMB Property Corp. "As business leaders we directly benefit from the knowledge and insight they provide, and I'm proud to give back to the School in this way."

Impact on the GSB: Faculty support is one of the School's top priorities within The Stanford Challenge. Your gift is critical for us to continue to make investments in the development of faculty members like Professor Wacziarg who distinguish themselves as both teachers and researchers—and make the Business School an even more dynamic and collaborative learning environment. Whether through annual giving or the establishment of an endowed faculty fund, your gift will enable us to continue cultivating a community of excellence.

STANFORD
GRADUATE SCHOOL OF BUSINESS

change lives • change organizations • change the world

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THE STANFORD CHALLENGE

STANFORD BUSINESS

MAY 2007 • VOLUME 75, NUMBER 3

24

ON THE COVER

14

Jacqueline Novogratz, MBA '91, with a small-scale farmer and children in rural Maharashtra, India.

MORE FEATURES

KNOWLEDGE NETWORK

IN EVERY ISSUE

4

COVER: *Illustration by Jim Frazier*

Minding My Motivations—and Yours

TWO COMPETING GRAIN ELEVATORS, towering Midwestern monuments to American technology, markets, and banking, straddled the entrance to the 12-block town where I spent Saturday and Sunday mornings during my childhood. On Saturdays, I practiced Latin and studied the Baltimore Catechism down the street in Blessed Sacrament Church. On Sundays this time of year, I prayed with all the Protestants and Catholics for the rain necessary to fill those elevators with wheat and corn. Occasionally, Maryknoll missionaries dropped by to tell stories and show pictures of skinny, hungry children in India or Mexico. After Mass my parents usually stopped at Burnstad's Grocery so we kids could spend our allowance on Tootsie Rolls and candy Lucky Strikes, but not when the Maryknolls came. On those Sundays, we felt we had to drop every last coin into the collection basket.

One Sunday after a missionary visit, I decided there must be a better way. My approach was to convince my father that we could be good Samaritans by using our 1952 Ford truck to haul grain to the railroad for a trip aboard a ship to India. Bountiful harvests and low prices had forced him to store more grain than he wanted, so my plan could solve two problems at once. For good measure, I probably added that it could solve the third problem of mice in our granary.

My Dad liked to nap after Sunday church but he listened and seemed impressed. He said it was a pretty good plan, but that there was just one problem. That problem was politics, which, someday I would understand, got in the way of a lot of practical solutions to problems.

When I read the article in this issue about **Jacqueline Novogratz**'s search for a more lasting way to help people living on less than $4 a day, I imagined her having similar childhood plans shot down by her father. She didn't quit trying, however, and now she even seems to have that old devil, Politics, on the run. I deeply admire her tenacity.

Politics is still a worthy rival, however, as we can see in the article on page 20 about the many ways people interpret the idea of corporate social responsibility. Writer Margaret Steen interviewed a number of faculty, alumni, and students on this topic. The result is a challenge to all of us to think more deeply about what we mean when we use catch phrases such as social responsibility or environmental sustainability.

That article reminds me that at the Business School's 75th anniversary celebration in 2000, the late Nobel economist Milton Friedman argued that organizations don't have values; only the people in them do. In some ways, his remark makes me think of Politics less as a rival and more as an excuse. As I interpret Friedman, if my family and I had possessed stronger commitments to fight hunger, we could have gotten our wheat to someone similar to Mother Teresa in India—we just didn't want to risk so much of our own comfort, including our reputation for being a sane, respectable American farm family.

I can see now that social responsibility is a moving target. I, for one, am glad to see innovating individuals and leaders of organizations offering up their own visions in these pages.

Kathleen O'Toole

EDITOR

STANFORD BUSINESS

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

ONLINE VERSION
www.gsb.stanford.edu/news/bmag

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PRINTING
Allen Press, Lawrence, Kan.

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POSTMASTER Send address changes to editorial office: *Stanford Business,* News and Publications, Graduate School of Business, Stanford University, Stanford, CA 94305-5015 (PHONE: 650.723.3157; FAX 650.725.6750; EMAIL: *gsb_newsline@gsb.stanford.edu*).

SUBSCRIPTIONS For nonalumni—$10/year in the U.S. and U.S. possessions and Canada; elsewhere $12/year. For faster delivery outside the U.S., add $14 per year to subscription.

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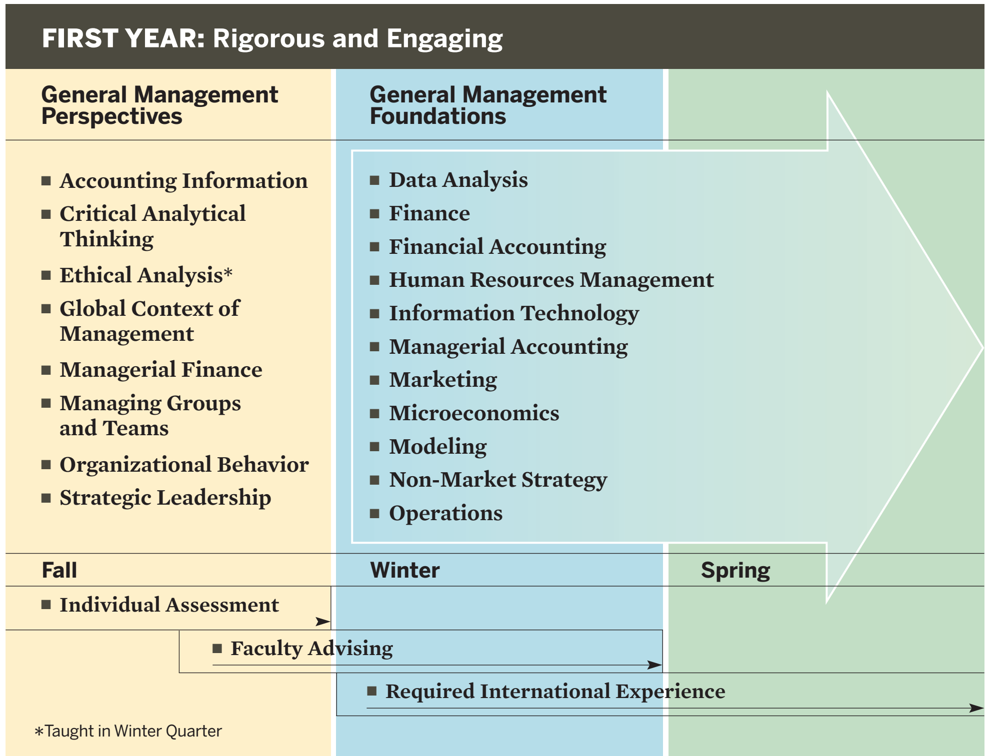
STANFORD BUSINESS Published quarterly (February, May, August, November) by the Stanford University Graduate School of Business (ISSN 1094-5423). Printed in the United States. Periodicals postage paid at Palo Alto, Calif., and at additional mailing addresses.

New MBA First-Year Program Sticks to Basics

THE OVERWHELMING MAJORITY of alumni who have heard about our new design for the MBA Program have expressed enthusiasm and support, but a few cite nagging worries. Will we be able to fulfill our promise to advise and guide individual students through a curriculum with so much choice? Will the increased level of "tracking" decrease cohesiveness of the student community?

We think that, overall, the changes we are making are good ones, and moreover they are changes that will be difficult for our peers to copy. So if we succeed, we'll be way ahead. But no substantial change in the program is without some implementation risk. The key is to understand the risks, watch how things unfold, and be ready to adapt as we learn what works and what needs improvement. You can be certain that we will be watching closely.

But one concern I've heard—which doesn't worry me in the least—is what are we doing to The Core? Many alumni remember our Core coursework, maybe not quite fondly but as a hugely important part of their education. I'm not worried because we are *not* abandoning The Core. If anything, the new program strengthens it.



To make this claim, I have to be clear on how I define The Core. This means the part of our educational program in which every student is brought up to speed—a very high speed—on two types of fundamentals: foundational skills of reasoning (modeling, data analysis, and the basic social sciences); and a broad understanding of the key functions of management (accounting, finance, marketing, and so forth). Every student is still going to be brought up to speed in each of these subjects. And because of the menu of alternatives we are going to offer through distribution requirements, some students are going to reach speeds we haven't seen before. No student is going to escape with something less than the old Core-level course. Indeed, for three reasons I think we are going to do The Core even better than before:

All students will be pulled into active classroom participation from the start.

First, as many of you will remember, we have long had streams—so-called "poet" and "turbo" sections. Our experience, uniformly, has been that this improves the learning outcomes for everyone. Teaching basics to a more homogeneous audience allows the instructor to pitch level and pace to what the students in the room can learn effectively. This needs instructors who push students as hard as the students can go. I'm not worried that our faculty members, who are passionate about the value of what they teach, are suddenly going to let students kick back.

Second, in the fall quarter the new course *Critical Analytical Thinking* is going to work on our students' abilities to think deductively (logically) and inductively (from data) and then to argue persuasively. Taught in seminar-sized groups of about 15, all students will be pulled into active classroom participation from the start. In particular, written and oral communication skills will be improved.

Third, in the fall quarter eight General Management Perspectives courses, including new ones like *Strategic Leadership* and *The Global Context of Management*, will frame the big issues of management for students, so that they have greater appreciation for what they can learn from the functions and tools of management in 11 General Management Foundations requirements (each with a menu of three course alternatives) in subsequent quarters. *Microeconomics*, for instance, can be a great thinking tool, but too often students don't appreciate that until they see where and how it can be used.

Abandoning The Core? Not hardly. It is too much a part of our institutional DNA. We think the new curriculum, with the managerial perspectives courses up front, will make clear the relevance and importance of the distribution requirements when students take them. What we're after is to deliver The Core more effectively than ever.

Spreadsheet

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

Student Games to Benefit Special Olympics

GSB students held a mini olympics among themselves last fall as a precursor to the annual spring Challenge for Charity competition among West Coast business schools. Students whose faces you can see, clockwise from upper left, are Eric Wong, Vincent Letterri and Coddy Johnson; John Foong and Ronald Paz Vargas; Alan Henri Resnikoff; and alumnus David ibnAle, MBA '00. The students are second-year MBAs except for Wong and Vargas.

ANDREW POND DAVIS, FIRST-YEAR MBA

A Bigger Boat to Ride Out Storm

He started out as a Stanford graduate in postwar Tokyo, served as a regional manager in prerevolutionary Iran, and in 2001 became the leader of the world's largest research-based pharmaceutical company. But his greatest achievement as CEO of Pfizer, **Hank McKinnell** told guests at the dinner honoring him as the 2007 Arbuckle Award recipient, was simply "making sure that the company would live on."

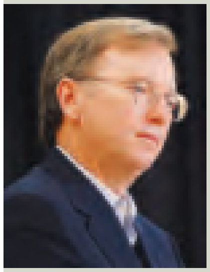
It was no small feat, said McKinnell, MBA '67, PHD '69, given that the threats to Pfizer were, and remain, very real. Pfizer medicines worth $14 billion, a third of the company's total revenues, go off patent between 2005 and 2008 and Lipitor, in 2011. "We could let the good times roll and keep sailing—or we could get ready for the storm by finding a bigger and better boat," he said. "My legacy, I hope, is that bigger boat."

Today, the company has a broadened and growing pipeline of medicines in development, including potential breakthroughs for Alzheimer's, cancer, infection, schizophrenia, and women's health. Nearly all of them went into development during McKinnell's tenure. "At its core, Pfizer has the people, resources, and pipeline to get to a new area of growth—and I hope that's part of my legacy," he told listeners.

The issues that draw McKinnell's involvement now are corporate governance and education in the United States and HIV/AIDS in Africa. He guided the construction of a teaching, research, and care clinic in Kampala, Uganda, for the Academic Alliance for Infectious Care and Prevention where hundreds of medical professionals are to be trained annually. "I believe AIDS is the moral crisis of our time, and I will continue my involvement," he said.

ILLUSTRATION BY PETER HOEY; SCHMIDT PHOTO BY STEVE CASTILLO; OTHER PHOTOS BY ANNE KNUDSEN

Quotable



"I see people continuing to bet against [the internet]. They use strategies that are not going to work in a new world where everyone is online all the time."

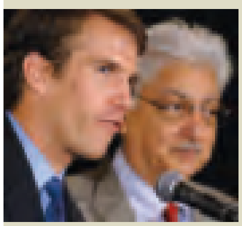
Eric Schmidt, GSB lecturer and CEO of internet search and information company Google, at the Roads to Innovation Conference in November.

"You do one thing and you do it well. If your chances of success are 1 in 10, you don't double your chances of success by doing two things."

Eli Harari, founder, chairman, and CEO of flash memory manufacturer SanDisk, speaking at the View from the Top lecture series in October.

"If you give a good idea to a mediocre group, they'll screw it up. If you give a mediocre idea to a good group, they'll fix it."

Ed Catmull, president and cofounder of Pixar Animation Studios, at the GSB's annual Entrepreneurship Conference in January.

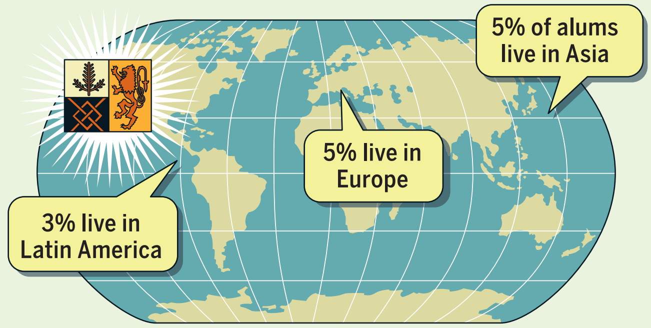


"There had been a trend of [Indian] professionals going to the U.S. in an effort to make a lot of money. But now people are wanting to come back to India."

Azim Premji, right, chairman of Indian outsourcing giant Wipro Technologies, speaking on campus in October, where he was introduced by Coddy Johnson, second-year MBA student.

Alumni Snippets

Where Do You Live and Work?



85% of all alums are U.S. citizens; 30% of the Class of 2001 are not U.S. citizens.

Older alums and the youngest are more likely to have work experience outside the U.S. The younger group is more likely to have worked in their country of origin.

Non U.S. residents, on average, graduated more recently and have managed fewer employees (217 vs. 622) and worked for fewer companies (3.0 vs. 3.7).

Can You Guess?

How many alumni have coached a child's team since graduation?

(Answer on Page 7)

SOURCE: Stanford Business School survey of last year's reunion classes (1956, 1961, 1971, 1976, 1981, 1991, 1996, 2001) plus a random sampling of all School alumni for a total of 2,448 respondents. Reports of citizenship and coaching children's teams were based only on the survey of reunion classes.

Room to Breathe at New Knight Campus

Moving trucks won't arrive for a few more years, but planning for a new campus for the School has proceeded to the selection of an architect. The Knight Management Center—named for **Philip H. Knight,** MBA '62, founder and chairman of Nike Inc., whose leadership gift kicked off the project—will be located at the corner of Campus Drive and Serra Street, across from the Schwab Residential Center.

One important impetus for the new campus is the very different classroom configurations needed to support the new MBA curriculum that will be introduced this fall. The current GSB South building was dedicated in 1966, when most classes were lectures and case discussions taught in traditional tiered rooms. The new curriculum requires more seminar rooms, team-oriented spaces, smaller breakout spaces, and flexible classrooms that can be reconfigured if needs change. Current plans call for less crowded classrooms by allowing 50 percent more space per student than in the existing buildings.

The new campus will total 340,000 square feet (about 80,000 square feet bigger than the current space), all housed in environmentally friendly structures that minimize water and energy use. The existing Littlefield Management Center, dedicated in 1988, and the newer Knight Building, both primarily office buildings, and GSB South will be turned over to the University.

In December, the School chose Bohlin Cywinski Jackson to design the new campus. Founded in 1965, the bicoastal firm was recognized last year by the American Institute of Architects for one of the top 10 green buildings in the United States. Groundbreaking for the Business School is slated for 2008, with completion planned for academic year 2010–11.

Academic Space Comparison

	Current Space	New Campus
Auditorium Seats	324	600
Standard Classrooms (40–150 seats)	16	10
Seminar Rooms (15–50 seats)	5	19
Breakout Rooms (6–10 seats)	8	48

Deeper Pockets Found in City of Angels

Maybe all those Hollywood fundraisers do more than show off the newest designer fashions and the brightest bling. It turns out that well-off Southern Californians are twice as generous when donating to charities as people in the rest of the state, according to a new study by San Francisco's NewTithing Group.

The nonprofit research organization, founded by retired money manager and philanthropist **Claude Rosenberg Jr.,** MBA '52, based its study on data from the California Franchise Tax Board. The group looked at affluent Californians—those earning $200,000 or more—and estimated their investment asset wealth (including stocks, bonds, and other private investments, but excluding real estate) from their 2004 tax returns. It then exam-

ined charitable giving. The median affluent Los Angeles County taxpayer donated approximately 1 percent per $500,000 of his or her estimated wealth. Counterparts in the rest of Southern California gave almost as much, 0.96 percent.

But the median affluent tax filer in other areas of the state donated far less—in the San Francisco area, excluding Silicon Valley, the rate of giving was about half of that in Los Angeles, or 0.52 percent. The median affluent Silicon Valley income tax filer gave 0.47 percent.

In terms of the *average* rate of giving, Silicon Valley comes out on top, at 1.24 percent. Averages are notoriously skewed by outliers: The Valley's average generosity was likely boosted by a handful of large gifts, says Tim Stone, president and director of NewTithing.

Summer Institute: All in the Family

After **Caitlin Burke** graduated from Vanderbilt University, she knew she wanted to learn more about business but she wasn't ready for business school. Then she thought of her grandmother, **Rosemary Damon,** MBA '48.

One of a handful of women in her Business School class, Damon got an MBA in the days when a woman who showed up at work with an engagement ring was fired on the spot. Burke found inspiration in her grandmother's perseverance, which started with her GSB education. "My grandmother had always talked about her fond memories of being at Stanford," she said. Burke decided to enroll in Stanford's Summer Institute for General Management.

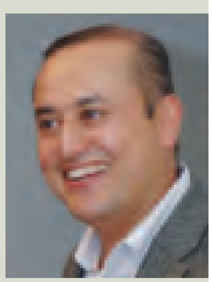
Over three years, the Institute has taught basic business skills to 343 undergraduates and recent grads. Of that group, 58 were children of Stanford MBAs or Sloan grads, 8 were children of the School's executive education participants, and 72 were children of other Stanford alumni—a 40 percent Stanford affiliation rate.

Professor **Kathryn Shaw,** program co-creator and director, emphasizes that both the University and alumni parents benefit from having their children in the Institute. The Institute gets motivated and well-prepared students and alumni renew their Stanford connection, which opens up new ways to communicate with their 20-something kids. "Once their kids are in this program, they feel they have a language and a shared experience that brings them together again," Shaw says.

Most important to Damon, her granddaughter received an overall view of business. "I thought this was a good way to get it at a very desirable location, with some outstanding professors," says the Portola Valley resident, a retired accountant and accounting professor who is often the only woman at reunions for those who graduated from the School 50 or more years ago.

Quotable

"It's not just creating a zone or an office park. I'm looking at this whole problem in a more holistic way."



Sabeer Bhatia, cofounder of online email pioneer Hotmail, who is building a city of 500,000—Nano City—in India to attract young, highly skilled workers and high-tech companies. He was invited to speak in January by the Global Management Program.

"Perhaps fewer companies are being sued for fraud because there is less fraud" after the Enron and WorldCom scandals.

Joseph Grundfest, law professor and codirector of the Rock Center for Corporate Governance, writing in the *New York Times.* The center is a collaborative project of the Stanford Business and Law schools.

PHOTO BY ANNE KNUDSEN

Getting Traction From Military Blunders

The 23-year-old third-generation West Point graduate was having a tough night. As a second lieutenant, **Doug Crandall,** MBA '03, had been assigned to lead a platoon of 16 soldiers and 4 tanks through the backwoods around Fort Polk, La., searching for artillery targets. After half an hour, the tank broke down, requiring maintenance; 16 hours later, Crandall tried taking a shortcut, only to sink into a bog at midnight.

"As I sat on top of the tank, I had this sergeant yelling at me, 'What the heck are you doing,' [in] more colorful language," Crandall recalls. "I couldn't blame him for being mad—I'd gotten us stuck." Crandall could have yelled back, pulling rank on the sergeant-mechanic, or sent him packing. But he realized he needed the man's help to get the tank going, even if it meant letting the platoon know he'd been wrong. "I deferred to him and admitted my mistake," Crandall says. They worked together while a rescue vehicle extracted the tank. Crandall shared this story with GSB lecturer **David Bradford,** and together they turned it into a case now taught at the School.

This failure helped shape Crandall's leadership vision. He has collected his and other West Point authors' thoughts in a book of essays, *Leadership Lessons from West Point* (Jossey-Bass, 2006). The foreword was written by business writer **Jim Collins,** MBA '83. Crandall met Collins through New York's Leader to Leader Institute, a nonprofit that helped produce the book.

And the answer is: **25%**

Letter to the Editor

Your article about women MBAs [February issue] was long overdue but is, I hope, just the beginning of the discussion.

Professor **James Baron** taught that "situations are powerful." You underemphasized the power of the situation that most women MBAs are in. Most will marry partners with equally advanced degrees and aspirations, and then most will have more than one child. Having two demanding jobs in this family situation is simply not tenable for most people.

I, like many other parents with professional training who are not in the paid workforce, devote significant amounts of time to keeping the wheels on the bus of the school system. Two of the most competent women from my Business School class are "not working" and both are the presidents of their respective PTAs, a position that requires prodigious fundraising and communication skills. I also work, without pay, on a library campaign that requires a thorough knowledge of marketing, data analysis, stakeholder and election politics, and strategy.

Another area in which unpaid MBAs add value is to the extended family. I often help family members analyze, negotiate, and budget for financial decisions such as real estate sales, investment advisor selections, car purchases, household budgeting, investment objectives and allocations, and insurance and loan choices.

I suggest that subsequent articles include what MBA skills graduates are using, regardless of gender or employment status.

—ALISON CORMACK, MBA '93
Palo Alto, CA

Student Learning Abroad

OPPORTUNITIES FOR BUSINESS SCHOOL STUDENTS to broaden their understanding of the global context of business have been greatly expanded in recent years. Each MBA student entering the program from this fall forward will be required to have a significant international experience related to the topic of management through an internship or another structured learning experience in a country new to him or her. Staff and students from the Global Management Program, the Public Management Program, and MBA Career Management Center seek assistance from alumni/ae in identifying the best learning opportunities. Here is a sampling of activities outside the United States that took place during the past year.

Extracurricular Lessons

SECOND-YEAR STUDENT Gavin Woody, above right, immersed himself in learning new cultural practices by joining two snake charmers outside the City Palace near the Golden Triangle in Jaipur, India. His weekdays last summer were spent as an intern for Infosys Technologies in Bangalore, India. In the summer of 2006, the Business School's Global Management Immersion Experience placed 71 interns in 56 countries.

China Side Trip For Interns

TAKING A WEEKEND BREAK from his internship at Idapted Inc. in Beijing, Juan Pardo, left, met up with Arturo Nanes, who was interning for Nicobar Group in Shanghai. The two second-year MBA students did some sightseeing in Xi'an, China, which included a stop at this temple.

Guatemala Coffee Break

MBA STUDENTS ON A WINTER BREAK from classes assist 32 families collecting coffee cherries at Finca Santa Anita, an organic coffee and banana farming cooperative in Quetzaltenango, Guatemala. In top photo from left to right, Pang Ngernsupaluck, Jenna Lawrence, and Jennifer Bolson, all first-year MBA students, set up for harvesting. The students also helped sort berries, center photo, as part of their service-learning trip. Farmer Angel Moreno, bottom photo, extracts beans from the cherries while Ben Forrest, a second-year student, sacks raw beans.

GUATEMALA PHOTOS BY GABRIELA HASBUN; OTHERS PROVIDED BY STUDENTS

Riding in Japan

DARIN BUXBAUM, second-year MBA student, rides in an I-unit—a concept car emphasizing personal mobility—while visiting the Toyota Kaikan plant in the Aichi prefecture of Japan as part of a study trip last December. Buxbaum can move at low speeds through a crowd of people while sitting up. At higher speeds he must recline for stability.

Driving Large In Sweden

FIRST-YEAR STUDENT Andrew Cantor tries driving a construction vehicle at Volvo headquarters in Göteborg, Sweden, during one of several study trips that students took during their winter break from classes.

THAILAND PHOTOS BY PETER STEMBER; OTHERS PROVIDED BY STUDENTS

Suited Up in Australia

ON THEIR WAY TO MEET the chief executive of hearing implant manufacturer Cochlear, MBA students stopped by the Sydney Opera House on a predictably gorgeous January morning. Their corporate itinerary also included Macquarie Bank in Sydney.

Thai Service Learning

SECOND-YEAR STUDENT Sam Goldman, right in top photo, hands out condoms to sex workers on the street of Pattaya, Thailand. He wears a "condom jacket" provided by Mechai Viravaidya of the Population and Community Development Association, a nonprofit that has reduced the spread of HIV/AIDS in Thailand by free distribution of educational leaflets and condoms to women who work in the sex trade. First-year student Rukaiyah Adams, at right in lower right photo, also distributes condoms. Second-year student Paritosh Somani, lower left photo, plays with one of the children from the Baan Jing Jai orphanage near Pattaya on a visit to the Khao Kheow Open Zoo. ●

Alums Recall Favorite Courses, Professors

*Professor **Gene Webb,** shown teaching in 1975, persuaded **Betsy Leichliter,** MBA '77, to plan for her plans to go awry. **Ted Marks,** shown below in a 1967 photo, was the "superstar" of postwar money and banking classes.*

Over the years, GSB classes have provided a direct line to a career for some, lasting philosophical insights for others.

CHUCK HORNGREN LIKES TO TELL THE STORY of when he was a young Stanford Business School professor and a casual acquaintance asked him what subject he taught. Accounting, he answered. "Accounting?" she exclaimed. "Well, at least it's at Stanford!"

The lady might be interested to learn that last year, in a survey conducted by the School's Alumni Relations Office, accounting was remembered by Business School alumni/ae as one of the subjects most valuable to them in later life—and Horngren was one of their most memorable teachers. Other course subjects deemed important were finance, entrepreneurship, and interpersonal dynamics, although there was virtually no subject (or faculty member) that went unappreciated.

Stanford Business followed by asking in its reader survey forms *why* people found some courses and teachers so special.

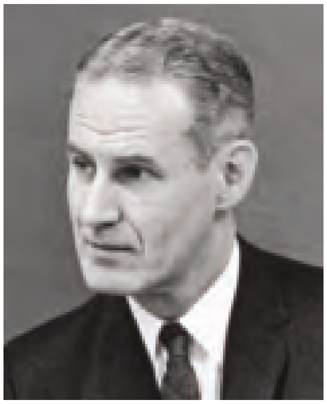
Not surprisingly, many of the magazine's correspondents saw a direct line from class to career. The portfolio management class taught by Nobel laureate **Bill Sharpe** had the biggest impact on **Chris Mothersill,** MBA '86. "Understanding risk and how it impacts asset valuation and returns has been fundamental to the work I have done in my career," wrote Mothersill, who spent the 20 years after graduation in investment banking, 15 of them in Japan and Hong Kong. Managerial accounting proved the key for Credit Suisse HOLT director **Mike McConnell,** PHD '74. "It gave me a language in which to interpret corporate performance, management decisions, and competitive position," he said. Venture capitalist **Eric Postel,** MBA '83, agreed. "Accounting is the language of business," he wrote. And **Gianni Ragazzi,** MBA '74 and CEO of Autoprint Srl in Italy, found that accounting and finance courses taught him how to examine a problem, explore alternatives, and find a solution.

Bob Quigley, MBA '57, put his choice in historical perspective. Back when he was a student, "MBAs were just beginning to be attracted to commercial banking following the long uphill return from its bottoming out in 1933," he wrote, "and Professor **Ted Marks**' class in money and banking caught my interest." Quigley, who is now retired, began his career at Northern Trust Bank in Chicago. He returned to California with First Interstate. "I finally started a de novo bank in Oakdale, which today is a high-performing, $250 million bank. Ted Marks was my superstar!"

Quigley wasn't the only alum to mention a personal Mr. Chips. **Mark Lange,** MBA '94, most recently a vice president of SAP America, cited two teachers who made a lasting mark on his career: **Jim Van Horne** and **Jim Collins,** MBA '83. Lange, a former presidential speechwriter, had entered the Business School as a "poet." He found that "Jim Van Horne made finance accessible without watering it down. His approach was engaging enough to keep it amusing—even for classmates with far more direct experience than I had at the time. But he was pragmatic enough that I was able to put much of what he taught us to good use after the GSB. When I found myself at a private equity fund, unexpectedly asked

"MBAs were just beginning to be attracted to the commercial banking field, and Professor Ted Marks' class in money and banking caught my interest."

WEBB PHOTO BY J. MERCADO



Professor George Leland Bach "continually offered to defend either side in classroom debates, having the class take the opposing side."

to build a depreciation model for satellite receivers (overnight, of course), his textbook gave me just enough guidance to get it done. I could almost hear his calm and measured voice behind the pages. I still keep his book behind my desk, all dog-eared and yellow-stickied," Lange wrote.

"Jim Collins' entrepreneurship course was a celebration of the art of the possible," Lange continued. "He had plenty of the pragmatic nuts-and-bolts tips that 'toolbox'-oriented entrepreneurs always crave—how a small business can grow itself to death, for example. But he also challenged us to set high goals for ourselves and the businesses we would create and lead. After the obligatory financial tour in New York and a couple of years in a smaller company, I found myself in my bedroom working on a pricing model and go-to-market plan for an on-demand application that, to my astonishment (and after five years), became a sustainable, healthy business. I don't think I would have tried that without his influence. Later I learned Jim's appreciation for the possible applies equally to growing more 'mature' lines of business, in my case at PeopleSoft and SAP."

Betsy Leichliter, MBA '77, finds that many of her Business School courses have proved valuable in her current career as a qualitative market researcher and moderator. But she singled out **Gene Webb**'s *Implementation* as both the most practical and the most mind-expanding. "At the time, I'd had plenty of professional experience with implementation as a theatrical designer," she explained. "I was raised in the Midwest and genuinely believed that the show must go on and the Protestant work ethic was a true path to professional success and personal satisfaction. But it had never occurred to me that perhaps I should give equal attention to thinking from the perspective of a counter-implementer. Once I expanded my imagination beyond how to make things happen to also consider how to make things *not* happen, it became a lifelong habit. Every time we plan a research project, I ask my team to figure out when, where, or how it can get derailed. Right now, I'm brainstorming ways to motivate a client to change direction on a major project—without kicking me off the project.

"Understanding risk and how it impacts asset valuation and returns has been fundamental to the work I have done in my career."

"In keeping with his own warm, down-to-earth, anecdotal style, Gene encouraged us to express our implementation/counter-implementation theories creatively rather than academically," Leichliter continued. "I wound up handwriting an illustrated notebook that I reread yearly. I laugh when I read the tips on accelerated budget-busting, mastering the art of technical obfuscation, living the 'I just work here' ethic, and other weapons in the counter-implementation arsenal—

"Once I expanded my imagination beyond how to make things happen to also consider how to make things not happen, it became a lifelong habit."

none of which can hurt you too badly if you see them coming."

After more than two decades in high tech, **Tom Owen,** MBA '76, owns and operates a home remodeling business in Washington state. On the surface it's an unlikely career path for someone who learned one of his most memorable lessons in Business School from the macroeconomics course he took from **George Leland Bach.** But Bach taught more than the ups and downs of a nation's economy. As Owen explained: "Professor Bach continually offered to defend either side in classroom debates, having the class take the opposing side. He reminded us again and again that it's possible for sensible people to disagree, based on their differing values, life experiences, premises, and logic. I have always found that perspective admirable, even more so in today's polarized society."

*Nobel laureate **Bill Sharpe,** shown here in 1993, taught a portfolio management class that prepared **Chris Mothersill,** MBA '86, for 20 years in investment banking. Another favorite professor, **George Leland Bach,** is pictured above left, circa 1966.*

When it comes to life lessons, one of the most cited by *Stanford Business* correspondents was *Interpersonal Dynamics,* fondly known as "touchy-feely." "It taught me to be honest with myself about my strengths and weaknesses," said **Jerry Moreno,** MBA '82, lead consultant with Integrated Strategic Solutions in Texas. It gave General Motors' **Joe Ponce,** MBA '84, who is in charge of all of GM's negotiations with United Auto Workers, "an appreciation for differences that exist in each of us, as well as our similarities." But perhaps the most eloquent tribute came from **Roger Pedder,** Sloan '73, recently retired chair of C&J Clark, the footwear company. Known as "Britain's top troubleshooter," Pedder has spent much of his career delicately turning around his own and other family-owned businesses. His work has clearly required fine-tuned interpersonal skills, but it is what **David Bradford**'s class taught him about himself that he remembers best. "I understood myself for the first time at age 32," he wrote.

BACH PHOTO BY BOB ISAACS; SHARPE PHOTO BY LINDA CICERO

He Gave Us *CSI* and *Killer Instinct*

"YOU TURNED MY PICKLE INTO A LIGHT BULB?" Sara Sidle couldn't quite believe that her boss, Gil Grissom, the lead forensic investigator for the Las Vegas Police Department, had just wired both ends of the pickle that accompanied Sidle's takeout lunch and then flipped the switch. "I'm electrocuting it," Grissom explained.

The zapping of a borrowed kosher dill to prove a murder is one of the famously quirky scenes in the make-believe world of *CSI: Crime Scene Investigation.* The writer and co-producer responsible for this particular slice of weird science is **Josh Berman,** Princeton grad, Fulbright scholar, and Stanford MBA/JD '96.

Berman began his career on the business side of television. His interview of Warren Littlefield, then president of NBC Entertainment, for the GSB student newspaper, the *Reporter,* led him to a summer internship at the network. Berman was invited back to NBC after graduation and rose to director of prime-time series before leaving in 2000 to become a writer for the fledgling CBS crime series *CSI.*

It was an unusual career move. As Berman explains it: "There are two different paths in Hollywood: You can be a suit or you can be the talent. My whole life I was training to be a suit, but I wanted to be the talent. It was a big leap, but I felt more creative, and I felt like it was more rewarding to be a writer than to be somebody who manages writers."

Berman approached the creative side with the same thoroughness he applied to his earlier pursuits. He took courses in forensic science and attended—even spoke at—conferences of coroners and crime scene investigators. "The conferences put me in contact with real-life CSIs. They're constantly emailing me story ideas," Berman says. "One of my most helpful CSIs is in Bakersfield. So when the Bakersfield crime lab needed funding, Jorja Fox, the actress who plays Sara Sidle, and I went up there and helped them persuade the powers-that-be to give them the money."

Trained to be a suit, Josh Berman redirected himself to the talent side of television.

Berman's *CSI* research bordered on the bizarre. He threw fake bodies off buildings to show the impact that would have on a human. He watched bugs eat pig flesh to approximate an insect's life cycle on a human corpse. And he learned how to electrocute a pickle.

Ah, yes, the pickle. "The pickle was for an episode where I wanted to explain how electricity works," Berman says, "and electricity is a really complicated concept." He searched online for a way to explain it simply and found a children's science experiment where the kids learn to conduct electricity through a gherkin. "Nobody at the studio believed it would work, so our props people did the experiment on their own, in advance. When it succeeded, everyone started talking about it, and the next thing I knew the entire crew was watching the props guys electrocute pickles."

CSI was great fun. It also was a solid hit. Berman was writer, executive story editor, co-producer, producer, and/or executive co-producer of 39 episodes between 2000 and 2006. He was nominated for two Emmys and won five People's Choice Awards.

Over the past year and a half, Berman wrote the pilot for the series *Killer Instinct* and created and co-produced a serialized thriller called *Vanished.* Unfortunately, both shows have done just that, but Berman takes the cancellations in stride. "Just getting *Killer Instinct* on the air was a success for me," he says. "I only wrote the pilot, and it went on without me." As for *Vanished,* Berman takes solace in the fact that the networks launched six other serialized thrillers last year and all were canceled by January. "I don't take it as a reflection on me," he says. "I just look forward to the next challenge."

That challenge is a contract to develop new shows for 20TH Century Fox through 2009. Berman will miss *CSI,* but he paraphrases another crime fiction writer when he explains his decision to move on. "Twentieth made me an offer I couldn't refuse," he says. ●

DAVID STRICK

 by Laura Smitherman

Reluctant Herder of Cats Now CEO of T. Rowe

JAMES A.C. KENNEDY, MBA '78, planned to pursue a career as a railroad executive when he first arrived at Stanford University. Trains rattling through the West held fascination for him during his boyhood in Omaha, Neb., and he had worked summer jobs overhauling diesel locomotives and repairing tracks.

But his plans would change after studying under the School's **John McDonald,** a finance professor who brings executives to the classroom to be quizzed by his students. That's where Kennedy first met Warren Buffett, the legendary investor nicknamed the Oracle of Omaha, the headquarters for his Berkshire Hathaway Inc.

"It was a tremendous, eye-opening experience," Kennedy says. And a new career path took shape.

In January, Kennedy became the CEO of T. Rowe Price Group Inc., a global investment company that manages more than $300 billion on behalf of clients. After Stanford and a stint in General Electric Co.'s renowned financial management training program, Kennedy landed at Baltimore-based Price and has been there ever since.

Two hundred miles from Wall Street, Price has an almost goody-goody corporate reputation. The company avoided the mutual fund scandals a few years ago, and it won accolades for steering clear of dot-com fads of the late 1990s after the internet bubble burst.

Kennedy was tapped for the CEO post because, as director Donald Hebb Jr. put it, the board believed he would be a faithful "keeper of the culture" who not only plays by the rules but is committed to the company's team approach.

"As opposed to the star who looks to be thought of as smarter and quicker than the rest," Hebb said, "you have someone who says, 'I'm the guy who calls the meeting to order.'"

Kennedy looks for "wicked smart" people and says he's biased toward those who have overcome adversity.

Kennedy started as an analyst, looking at companies for possible investment. One of his first recommendations: Buy railroads. An old map of Nebraska railroads still hangs behind his desk.

Soon his bosses approached him to be director of research in charge of the analysts. He said no six times before grudgingly taking a job he feared would be like "herding cats."

The year was 1987, and the job would be even more difficult than he imagined when the market crashed a few months later. Kennedy set out to shake up the department, and a number of people were fired or transferred. He developed a system to weed out analysts who produced inferior research and couldn't sell recommendations to money managers.

A decade later, Kennedy rose to head of the equities department, managing the money managers. He was a stickler for policies that keep managers in check. For instance, funds must be diversified to reduce the risk of a hotshot making oversized bets on a stock or bond that goes sour.

Kennedy became known for his sharp eye for talent. He can give people the distinct impression he is analyzing their personality during conversations, and he frequently begins sentences with the phrase, "If you think about it."

Price's eclectic investment team includes a college football Hall of Famer, a surgeon, an urban planner, and, actually, a rocket scientist. Kennedy looks for "wicked smart" people and says he's biased toward those who have overcome adversity.

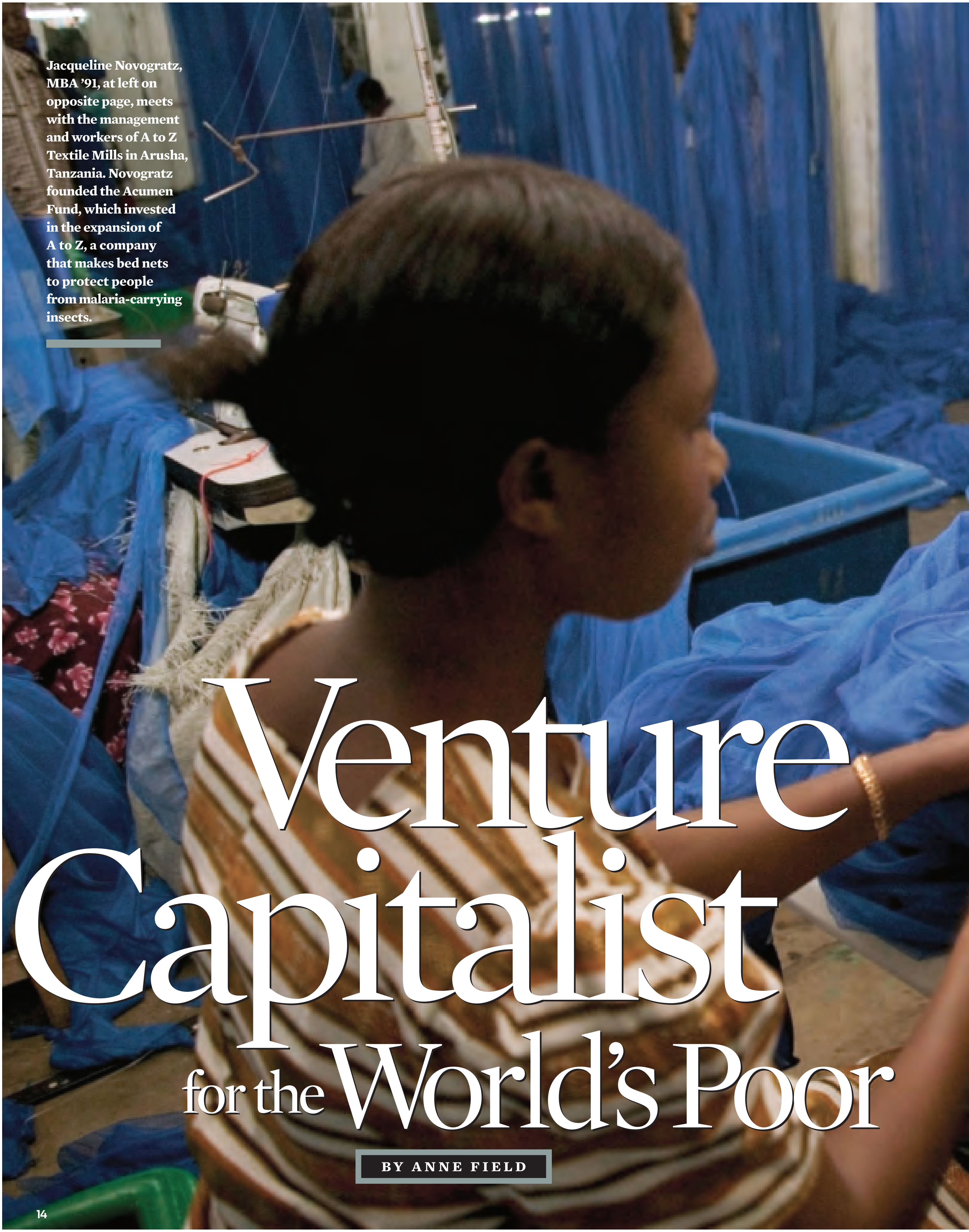
Colleagues say Kennedy is accessible, with a knack for remembering names and a penchant for lunching with different employees. "He's not like a lot of people moving into a corner office and disappearing into the corporate boardroom," said Mary Miller, head of the fixed-income division.

A number of company traditions already bear Kennedy's imprimatur. He wrote the memo that turned the holiday party into a gridiron show, even though he is often lampooned. And he started the company softball league by challenging the fixed-income folks to a game with equities; the annual playoffs now field more than two dozen teams.

Kennedy also spends a lot of time with new hires and has escorted spouses around Baltimore to give them a feel for the place. He once invited the interns to his house and cooked after a rained-out Baltimore Symphony Orchestra event.

"These guys get to drink beer and eat dinner with the CEO," said Anna Dopkin, a money manager at Price. "I used to work at Goldman Sachs, and while that's an amazing firm, I don't think I can remember who was CEO at the time."

ELIZABETH MALBY



Jacqueline Novogratz, MBA '91, at left on opposite page, meets with the management and workers of A to Z Textile Mills in Arusha, Tanzania. Novogratz founded the Acumen Fund, which invested in the expansion of A to Z, a company that makes bed nets to protect people from malaria-carrying insects.

Venture Capitalist for the World's Poor

BY ANNE FIELD

SUSAN MEISELAS/MAGNUM

TWENTY-ONE YEARS AGO JACQUELINE NOVOGRATZ took what she thought would be a three-week business trip to Rwanda. The stay not only ended up lasting two years but inspired her to invent a new form of philanthropy aimed at helping the world's poor. Like the path traveled by any visionary—or entrepreneur—hers involved unforeseen twists and turns. Yet she maintained her passionate belief in the power of individuals to help the truly poor to help themselves. Along the way she found methods to reinforce that belief and turn it into reality.

Trained first as an international banker, a 25-year-old Novogratz was in Kenya helping launch a microfinance institution that gave small-business loans to poor women when a group of Rwandan women asked for similar help. She agreed and in the process decided to join a group of 20 poor women who were running a church-subsidized, money-losing bakery. By introducing new business processes, she was able to turn the bakery into a profitable enterprise within 6 months, boosting the women's income and their self-respect.

For Novogratz the added value was richer insight into economics. With her usual soft-spoken but rapid-fire intensity, she says, "I saw the power that markets can have to help bring people out of poverty, the discipline that running a business provides, and the pride that results from ownership."

Those insights led this daughter of a former military officer and the oldest of seven siblings to apply to the Stanford Graduate School of Business, where she earned an MBA in 1991 and 10 years later formed her own venture, the Acumen Fund. Living in Manhattan now and working from Google's Chelsea office building during the infrequent times she is not on the road, Novogratz describes her creation as a "philanthropic venture capital fund." A ground-breaking hybrid when she started it in 2001, Acumen's basic mission and approach have not changed, although the details have. It still is a nonprofit using a market-based approach to nurture enterprises that are able to deliver goods and services to the world's poor on a sustainable basis. That means building businesses that can grow on their own, preferably to have 1 million or more customers among the poor, without receiving handouts on an ongoing basis.

It's an innovative approach that Novogratz, 46, took most of her life to develop. An idealist from the time she attended Catholic elementary schools, her eyes were opened to the problems of addressing global poverty right out of college when she worked for the international loan division of Chase. There she saw millions in loans going to the wealthy with nothing to help the desperately poor. Her search for a better way led her to Africa, Stanford Business School, and the Rockefeller Foundation. Each experience planted another seed until she finally formed the idea for Acumen. Her mix of quiet energy, intel-

Novogratz asks a bed net user in rural Tanzania about the product's performance. Some nonprofits and government organizations buy nets to give to the poor, but to be sustainable for the long term, the manufacturer needs to offer nets that individuals are willing and able to buy, Novogratz says. These nets last five years without retreatment with pesticide. Behind Novogratz, a curtain made from a net protects a ventilation opening in the home.

SUSAN MEISELAS/MAGNUM

Novogratz talks with Anuj Shah, the CEO of A to Z Textile Mills, right photo, and with an assembly line worker, below center. Workers monitor material being woven into a net, below left, and inspect for quality, below right. The Tanzanian company, with 5,000 workers who are mostly single mothers, produced nearly 7 million nets in 2006 and paid off a $325,000 Acumen loan.

SUSAN MEISELAS/MAGNUM (4)

"There's an arrogance to the attitude that we're going to come in and fix something for you, and you should appreciate it. The only way to really build trust is by starting from how people really are."

ligence, and optimism inspired others to join her cause. "It's because of her vision and ability to make it happen that we got involved," says **C. Hunter Boll,** MBA '84 and COO of Source Audio and an Acumen board member.

The basic premise for Novogratz's approach to global poverty rests on a few simple ideas: Traditional methods can't solve the deeper problems facing people living on less than $4 a day because grants and loans to governments from organizations like the World Bank, as well as aid from charities, don't help the poor build self-sustaining ways to better their lives. Instead, the free money tends to backfire because there's no real accountability for recipients' actions, she says. Adds Boll: "Grants don't contribute to creating financial growth. The only way to keep going is to re-up the grant."

What's more, traditional charitable organizations take a top-down approach, imposing their own concept of what poor people need instead of responding to what destitute populations really want. That encourages making the wrong decisions, Novogratz says. She cites an organization that tried to help Rwandan women with the laborious process of milling maize by providing corn mills—without thinking about what to do when the mills ran out of gas. "There's an arrogance to the attitude that we're going to come in and fix something for you, and you should appreciate it," she says. "The only way to really build trust is by starting from how people really are."

At the same time, too much emphasis on the power of the market can impair an organization's social mission. "Once you're driven just by profit, you're likely to make different decisions about, say, what income levels you need to serve," she says.

Novogratz's solution is to back existing small businesses selling products and services that benefit the very poor. While the fund gives some grants, it also uses equity investments and loans from money raised from foundations, corporations, and individuals. By adopting financial mechanisms employed by venture capitalists, Novogratz says, entrepreneurs are forced to create more efficient organizations.

According to this philosophy, market response tells Acumen whether it has bet on the right companies and the right goods and services. "By affixing prices to the delivery of critical services, we allow people to tell us what they want and what they can pay for it," Novogratz says. Most important, the poor decide for themselves what

A factory worker, left photo, discusses earning extra income by selling nets door to door at an Acumen-subsidized price. Below, a saleswoman using the Tupperware model shows an antimalarial bed net that is also a colorful home accessory to potential buyers. "Finding ways for people to make their own decisions is a powerful model for change," Novogratz says.

works. Says Boll: "We don't try to make choices for people, and that's one of the things that really sets Acumen apart."

This model also differs dramatically from microfinance. That approach gives small loans of $150 or so to individuals to start tiny businesses—a vegetable stand, say. Acumen has its eye on bigger game: investing in already existing firms that specifically sell things aimed at improving the lives of large numbers of people—anything from low-cost housing to eyeglasses or inexpensive irrigation equipment.

With an average size of $600,000 to $1 million, Acumen's investments, of course, are peanuts compared to those of traditional venture capital or of the World Bank and the International Monetary Fund. Still, with $20 million under management, raised from such places as Google, Cisco, and the Rockefeller Foundation, Acumen has invested in 27 for-profit and nonprofit businesses in East Africa, India, and Pakistan. About $667,000 in principal and interest has been returned to Acumen, which has plowed it back into other investments.

NOVOGRATZ FOCUSES ON FOUR AREAS: health care, housing, financial products, and water. Take A to Z Textile Mills in Tanzania, to which Acumen gave a $325,000 loan in 2002. At the time, the company was selling polyester-based anti-malarial bed nets to protect against insects that spread the disease. Like most bed nets, theirs had to be re-treated frequently with an insecticide. The loan permitted the company to use new, longer-lasting technology from Japan's Sumitomo Chemical. In addition, Acumen arranged for the World Health Organization to set standards for the product, UNICEF to buy the nets using public funds, ExxonMobil to provide the resin needed, and Population Services International to help raise awareness. Annual production of bed nets is now nearly 7 million. The company employs 5,000 people in Tanzania, mostly women. Last year, the company paid off its Acumen loan. Success like this results from a mix

Novogratz focuses on four areas: health care, housing, financial products, and water.

of optimism, business savvy, and confidence—characteristics that many of Novogratz's colleagues say are her hallmarks. "She has a unique ability to connect with anyone, a unique curiosity about people," says Acumen board member **Catherine Muther,** MBA '78, a former Cisco executive and founder of Three Guineas Fund, a San Francisco–based foundation. On a recent trip to India, Muther says,

SUSAN MEISELAS/MAGNUM (2)

> “John Gardner helped me understand how you could use these business practices to help poor people make decisions for themselves.”

she observed Novogratz repeatedly approaching consumers to ask their opinions of products and services.

Novogratz’s interest in social action began early. Amy Novogratz, 14 years her junior, recalls her older sister while in high school teaching her folk songs and insisting they visit the local Goodwill store. Now director of the TED Prize for the TED conferences, Amy says Jacqueline inspired her own social action. Brother Mike, president of Fortress Investment Group, a New York–based alternative asset manager, is one of three of their four brothers in high-powered

Acumen has invested in IDE India, a company that produces inexpensive drip irrigation systems that double water efficiency for small-scale farmers in dry regions of India. At left, Amitabha Sadangi, the executive director of IDE India, demonstrates the use of a system, which is sold in a hardware store, center, in Maharashtra, India. At right, marketers sell vegetables grown with the irrigation.

COURTESY ACUMEN FUND (3)

finance jobs. He says he and Jacqueline frequently talk about the best way to effect social change.

Novogratz began her career in the for-profit sector, joining Chase’s international loan division after working her way through the University of Virginia. Traveling to 40 countries in three years, she was in Brazil during that country’s debt crisis when she started thinking she needed to do something else. “I saw all these people in the slums with no access to bank credit at all, while we were writing off millions of dollars of loans to the wealthy,” she says.

Determined to find a better way to “bring the underprivileged into the economy,” she decided to explore microfinance with Women’s World Banking, an organization that sent her to the Ivory Coast and then Kenya. When five Rwandan women invited her to their country to help them build a similar institution, she couldn’t refuse because “that was the first time African women had asked me to do something rather than me being asked by an organization to do something for Africans.”

The invitation to help with “a little charitable project”—making and selling baked goods—came next. Twenty women, subsidized by a church, were spending more to keep the project going than they earned. When they asked for help, Novogratz says, “I thought, as only a 25-year-old could, ‘I can do that.’”

Revamping the operation, she learned that some of the women regularly stole from the bakery, so she instituted new inventory systems. Within six months, they “cornered the market for snacks” by delivering them to the biggest companies in the city of Kigali and were earning three to four times the average national wage.

Wanting to build on her skills, Novogratz took a World Bank job briefly in Gambia and applied to Stanford Business School, where she took advantage of the Public Management Program. It would be a few more years before the idea of social entrepreneurship would take hold with large numbers of GSB students, but Novogratz began developing a new skill set. She worked with the late **John Gardner,** the founder of Common Cause and a professor revered at Stanford for his ability to inspire community activism. He “changed my life and mentored me for the next 15 years,” Novogratz says. “He helped me understand how you could use these business practices to help poor people make decisions for themselves.”

After graduating, Novogratz started a philanthropy workshop for the Rockefeller Foundation that exposed high-net-worth individuals to underprivileged communities. The resulting discussions led her to create Acumen. Says Muther: “We were all talking about new ways to solve global poverty, but Jacqueline came up with the idea for Acumen and then announced she would actually do it.”

With seed capital of $5 million from Rockefeller, $2 million from the Cisco Foundation, and $1.5 million from three private individuals, Novogratz founded Acumen just before the Sept. 11, 2001, terrorist attacks. She wound up raising another $1 million, half of her original projection.

By 2003, Acumen had put money in 11 companies. They included the malaria net company in Tanzania, a nonprofit making an inexpensive drip irrigation system in India for poor farmers, and a community housing program for low-income squatters in Karachi, Pakistan.

In that same year, with urging by David Kyle, the Fund’s new COO, Novogratz decided to start moving more into equity and loans for the accountability and discipline they instill in companies. She also refined the characteristics that companies need to receive investments; no matter how interesting the product, Acumen won’t provide backing unless it has the potential to reach a lot of people. Their first grant recipient, a maker of a $42 hearing aid in India, seemed promising, but after the company distributed about 10,000 devices, it became clear that wider distribution wasn’t possible. The lesson: “We realized that our sweet spot is in figuring out how to get goods and services to people who need them and looking for business models to support that objective,” says **Yasmina Joanne Zaidman,** MBA ’03 and a portfolio manager at Acumen. “It wasn’t about investing in cool technologies.”

Novogratz, Kyle, and chief investment officer **Brian Trelstad,** MBA ’99, instituted more stringent financial reporting and planning methods. Loans force recipient organizations to manage their cash flow more tightly, not only to show their ability to repay on time but also to take care of day-to-day activities. Because of Acumen’s social

Continued on page 32

Voices on Corporate Social Responsibility

How much should an oil company do to combat global warming? Does an investment bank, with a less direct connection to pollution, have a lesser responsibility? And if a company does take steps to reduce its energy consumption, is it acting as a responsible corporate citizen or in its own self-interest?

IN 1970, THE LATE ECONOMIST MILTON FRIEDMAN famously said the goal of a company is to maximize profits, as long as it's doing so legally and ethically. Although some experts still say that view offers the clearest picture of how businesses should make decisions, most business executives take a more expansive view. ■ A 2006 survey by McKinsey & Co., for example, found that only 16 percent of worldwide business executives said companies should focus on getting the highest possible returns while obeying all laws and regulations. In contrast, 84 percent said large corporations should generate high returns to investors but balance this with contributions to the broader public good. ■ This interest in doing good raises questions about what, exactly, corporate social responsibility is, how it can be reconciled with profit making, and whether "corporate social responsibility" is even the best term to use. ■ "When executives talk about corporate social responsibility, they can mean a million different things by it," said **David Brady,** a professor at the Graduate School of Business who teaches in the course *Ethics and Corporate Social Responsibility*. ■ Some observers are troubled both by the lack of a clear definition and by the fact that corporate social responsibility has frequently been viewed as something separate from a company's primary business. ■ When some companies tout their efforts on behalf of the environment or the community, "it

By MARGARET STEEN. Illustration by Jim Frazier

seems like they are writing a report to shareholders instead of making responsible business part of their company's core strategy," said second-year MBA student **Sam Goldman,** a former Peace Corps volunteer. He said he felt he was working on core strategy for Wal-Mart during an internship last summer with the group developing a material recovery strategy to promote the retailer's long-term zero-waste goal.

The question of a financial institution's responsibility to combat climate change is a frontier issue.

Lenny Mendonca, MBA '87 and a director at McKinsey, prefers the term "social contract" and says striking that agreement "is not a separate issue from your overall strategic focus." Mendonca views the contract between business and society in three parts. The first is formal: laws and regulations. The second encompasses "semiformal expectations," such as consumers' expectations about privacy, which, if violated, could lead to increased regulation. Third and most challenging are what Mendonca calls "frontier issues"—those issues that have not previously been considered companies' responsibility but may be in the future. The question of a financial institution's responsibility to combat climate change is one example.

"You can't just say, 'Don't do things that make me, the leader, uncomfortable.' People who work for you cannot make decisions like that."

The concept of "sustainability," which is often discussed in the same breath as corporate social responsibility, is similarly poorly defined. What some environmentalists mean is that "when we conduct our business activity, we don't leave any footprint on the earth—the earth is as healthy as it would have been had we not been there," said Professor **David Baron.** One way to tread more gently is to buy greenhouse gas emission credits from European companies who can sell their right to emit the gases through the European Union Greenhouse Gas Emission Trading Scheme. In the United States there is no such market, but businesses such as Menlo Park's TerraPass sell "offsets," which are investments in alternative energy development or supplies.

A more traditional view of sustainability is simply making sure that a business doesn't use up all the natural resources it depends on: A timber company would replant trees to replace what it harvested. "From an economist's point of view, this form of sustainability is driven by market forces," Baron said. "The concern is with those negative externalities associated with a business' operations that market forces cannot correct."

It is, of course, in the timber company's interest to not run out of trees. And this fact—that an activity can be billed as "sustainable" or an example of corporate social responsibility and also be in the best interests of the company—raises questions for some about whether the company is acting simply for its own benefit.

"Sometimes conduct that somehow acquires the label 'corporate social responsibility' is little other than self-interested behavior dressed up to look like something more than that," said Professor **Keith Krehbiel.** "And while there are also instances of companies that do more for society than self-interest would require, it can be extremely difficult to know which type of company is which."

Although motives can be difficult to discern, Brady said, they are important because "they predict future behavior." Without knowing a company's motives, it can be difficult to know if today's community initiative will be continued tomorrow.

The difficulty of defining and identifying truly responsible corporate behavior—and the fact that one company's definition of responsibility may be very different from another's—can send some people back to Friedman's position.

"It's a really common criticism that social responsibility is 'squishy' and you can't quantify it. That's just not true," said **Nancy Katz,** MBA '93 and vice president of investor relations at American Infrastructure MLP Funds, a Foster City, Calif.–based private equity firm. "There are certainly ways that you can put boundaries around what you can or cannot do in pursuit of profit."

It is possible, she said, to create principles that everyone at a company can follow. "You can choose how many layers you want to add to the basic layer of 'Is it legal or not?'" she said. "The key is to be very clear, as a leader, about how your employees should operate under these additional layers. You can't just say, 'Don't do things that make me, the leader, uncomfortable.' People who work for you cannot make decisions like that."

TODAY'S BUSINESS LEADERS face an increasing number of activist groups who can get their message heard easily via the internet if they don't approve of a company's practices. Executives also face some decisions about corporate social responsibility, particularly with regard to their global supply chains, that are more complicated than they used to be. "I think companies tend to be held to a higher standard now than they were 10 to 20 years ago," Krehbiel said.

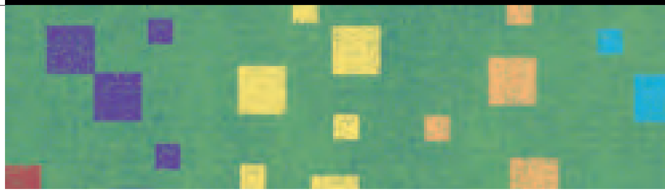
The idea that business leaders have obligations to society is cyclical. Following World War II, with the Committee for Economic Development's work on the Marshall Plan in the late 1940s, American business leaders "saw a collective need and obligation to engage in reconstruction of the country and the world," Mendonca said.

But the global economy has brought new complications. More companies are involved in international trade, and the loss of American manufacturing jobs has increased public interest in working and environmental conditions abroad. Nonprofits also get criticized. The *Los Angeles Times,* for example, recently criticized the Bill and Melinda Gates Foundation for investing in oil companies responsible for spewing pollutants that cause childhood asthma into Africa's Niger delta, where the foundation is fighting polio and measles.

Some companies act to forestall pressure from nongovernmental organizations, the press, or government.

"As our world became increasingly global, it became more difficult to say, 'Hey, it's not really our responsibility,'" said **Amanda**

Companies are taking more responsibility for the labor and environmental practices of their suppliers and their suppliers' suppliers.



Corporate Social Responsibility at the Business School

THE CENTER FOR SOCIAL INNOVATION at the Business School provides individuals and organizations with insights on corporate social responsibility by supporting collaborative research, teaching, and community engagement.

■ **Research includes current dissertation support for a Business School doctoral student working on the political dimensions of corporate social responsibility and work by a faculty member in the School of Humanities and Sciences on the social transformations resulting from sustainable tourism efforts in Argentina and Chile. Case studies are also prepared on topics such as corporate philanthropy and managing in nonmarket environments.**

■ **MBA students learn about corporate responsibility as part of the Center's popular Public Management Program, which offers academic courses, experiential learning, and community involvement opportunities in the United States and abroad.**

■ **Community engagement occurs through the Center's quarterly journal, *Stanford Social Innovation Review;* its podcast channel, *www.siconversations.org;* and a new book series. A new Social Innovation Partners Program provides organizations and their executives with access to special events and publications. An April conference cosponsored with the Stanford Global Supply Chain Management Forum, for instance, allowed leaders to share best practices for creating environmentally sustainable supply chains.**

Tucker, general manager of Nike Vietnam, who also spent five years in the company's labor practices department. She will enter the School's Sloan Master's Program this fall. Many consumers, she said, don't realize or don't care that Nike doesn't own the factories that manufacture its products. "To them, as long as [a product] has the Swoosh on it, the distinction between ownership and nonownership means nothing."

When Nike established a code of conduct for its suppliers in 1992, it was not common. Now that many companies use concepts of supply chain management to save money and deliver their products more efficiently, they "cannot cherry-pick only opportunities," said Professor **Seungjin Whang.** Companies like Nike, Starbucks, and Gap are taking more responsibility for the labor and environmental practices of their suppliers and their suppliers' suppliers.

Still, several questions remain. The first is the precise definition of an unethical practice. Sometimes nongovernmental organizations, the government, or the press "go overboard," Whang said, in condemning a company for a problem in its supply chain. Is it always appropriate, for example, to impose American or Western European ideas of what constitutes a fair wage or good working conditions on a country where the tradition and practice are much different? "It is not that crystal clear," Whang said.

Second, although there is widespread agreement that companies bear some responsibility for suppliers' behavior, it's not clear how much they can control. This leads to another question: How can companies efficiently audit and monitor the practices of all the companies in their supply chain? Whang said one Hong Kong company that supplies multiple companies was audited 35 times last year. On the other end, he said, a U.S. apparel maker has nearly 100 employees devoted to ensuring compliance with its code of vendor conduct.

Applying ideas about social responsibility to the supply chain involves risk management, corporate reputation and regulatory issues, and industry-level collaboration—one reason many companies are integrating issues of responsibility into their overall business strategy rather than confining it to one department. "When they're disparate activities that aren't aligned with overall corporate direction, they're not going to be very effective," Mendonca said.

FOR LEADERS OF PUBLICLY HELD COMPANIES, whose shareholders expect them to make money, the idea of acting in a way that benefits society presents an inherent conflict. Even the caveat about acting ethically attached to Friedman's seemingly clear goal—to make as much money as possible—opens up a "huge loophole," Krehbiel said. "The argument is logically tight, and Friedman's advice is often embraced by business students and business leaders. But who is to say what basic rules are embodied in ethical custom?"

Here are three of the ways advocates of corporate social responsibility seek to reconcile profits with responsibility:

1. **COMPANIES HAVE MANY STAKEHOLDERS.** This view looks not only at a company's shareholders but more broadly at its employees, its customers, its partners, nongovernmental organizations, and anyone else who is concerned about how it operates. Making sure they are satisfied is partly a public relations issue.

But it "goes beyond PR," said **Laura Commike,** MBA '05 and manager of advisory services for Business for Social Responsibility, a San Francisco nonprofit. Corporate reputation affects real business issues, including whether consumers will buy your products and who will want to work for you. "There's more and more evidence that employees are actually a really important stakeholder."

But if Friedman's view—essentially that shareholders are the only stakeholders who matter—is complicated by globalization and questions about whose ethics and laws to uphold, then adding more stakeholders, with often conflicting desires, to the equation can make it very difficult to decide what to do. "You can decide anything. It doesn't constrain you in the slightest," Brady said.

2. **IT'S GOOD FOR BUSINESS.** Student Goldman wants to find business activities where "the better I do, the more it helps my target—whether that is a social or environmental cause." He cites examples such as the recycling industry, where the more revenue businesses generate by diverting waste to alternate uses, the better it is for the environment. "So it's not a trade off."

Investor relations VP Katz cites Whole Foods Market, a grocery chain that sells high-priced natural and organic food, as an example of a business whose model depends on attracting customers who are willing to pay more for these products.

"People tend to think of the conflicts that arise from being socially responsible: 'Do I source this responsibly or do I pay the lowest price?'" Katz said. "I think what often gets overlooked is the ways in which they're actually symbiotic."

"Some of this just markets well," Baron said. "Some companies use it as part of their advertising; customers like the good things that you

Continued on page 32

 by *Alice LaPlante*

You Had to Be There to Avoid the Next Crash

INVESTORS WHO LIVED THROUGH THE DOT-COM BUBBLE are unlikely to forget it. But although the still-raw details of that era have been documented in countless publications—and are likely to be ensconced in MBA textbooks for decades to come—those who didn't experience it will probably not learn from history.

"After a crash, people are quite aware of the potential dangers and adjust their investing behavior accordingly. But after 20 years or so, that memory is erased, and you again have the conditions that make another bubble possible," says **Stefan Nagel,** an assistant professor of finance who teaches the core finance class to MBAs, as well as a course in empirical finance in the PHD Program. With coauthor Robin Greenwood of Harvard Business School, he researched how investors form expectations for the future, and identified market conditions that lead to bubbles. "In this study, we were trying to connect those two things," Nagel says. They reported their results in "Hedge Funds and the Technology Bubble," in the *Journal of Finance.*

Past theoretical studies and laboratory experiments have examined these topics, but "there is a big gap between these experiments in artificial laboratory settings and the empirical research we performed," Nagel says. He and Greenwood examined the portfolio decisions of experienced and inexperienced mutual fund managers during the technology bubble of the late 1990s. They used data from Morningstar, a provider of mutual funds research and ratings that maintains a database of funds and profiles of their managers.

Categorizing fund managers by age, the researchers found that younger managers bet on technology stocks at rates that actually trailed those of older managers at the start of the bubble in 1997. But leading up to the bubble's peak in March 2000, younger managers dramatically increased their holdings of such stocks.

"The funds by younger managers took aggressive positions in technology stocks—much more than those by older managers," Nagel says, particularly after quarters when technology stocks had done well. "Young managers chased the trend, but older managers did not."

As the bubble developed further, new money flowed into funds run by the younger managers. This seemed to be driven by the fact that investors tend to chase funds that have been performing well. "At the beginning of the bubble, younger managers tended to perform better than older ones, thus attracting more investors to their funds and perpetuating the cycle," Nagel says. The result was that although younger managers started out in 1997 with relatively small funds, the amount of money they controlled had quadrupled by March 2000 when the bubble finally burst.

Younger managers of funds invested aggressively in technology stocks as the bubble developed.

After the bubble ended, younger managers experienced "outflows"—investors taking money out of their funds—but not more so than comparable funds run by older managers. "Thus for mutual fund companies, the failed dot-com investments of younger managers turned out to be not that costly," he says. "For those investors who piled into young managers' funds before the peak of the bubble, the picture looks different, of course."

These results point to a difference in beliefs of younger and older fund managers. "It seems that older managers were more skeptical about how well these technology stocks would do in the future," Nagel says. That might surprise economists, who in theory believe there should


Stefan Nagel

ILLUSTRATION BY STUART BRADFORD

be no difference whether a fund manager has firsthand experience or not. Knowledge is what matters, regardless of how it has been acquired. "Even if you're a younger manager, you should still have learned about past bubbles and what happened in the stock market over the past 100 years. In fact, MBA programs teach this," Nagel says. "But it turns out that on-the-job experience is what counts."

In a related project, he and Ulrike Malmendier, an assistant professor at the University of California, Berkeley, see evidence that personal experience dramatically impacts individuals' investment decisions. "If someone lived through the Great Depression or was young in the 1970s or 1980s when stock market performance was very poor, and experienced lousy returns, he or she is much less likely to put money in stocks," Nagel says. "Almost inevitably, they choose other assets to invest in."

The implications of these studies are a bit ominous. "Go out 20 or 30 years from now and it's possible we'll see another bubble," Nagel says. Is there a moral here? Always invest in funds with older managers? Not necessarily. "After all, if you had ridden the tech boom for the short run only, you would have done very well," he says. Over the long term, of course, it would have paid off to have gone with an experienced manager. "So it's very difficult to generalize."

>Extra Credit

Dictators Often Regarded as Lesser Evil

While dictatorships are associated with armed force and even terror, many survive because of deep ethnic divisions in the general populace that act as insurance to keep dictators in power, says research by Assistant Professor **Gerard Padro i Miquel.**

The deep ethnic divisions found in much of Africa, he argues, are life insurance policies for dictators, depriving residents of human rights while at the same time looting their countries so openly that they have become known as "kleptocracies." Efforts by the developed world to aid these economies are often sabotaged by corrupt bureaucracies that siphon off a huge percentage of external development money. Uganda, for example, at one point derived roughly 20 percent of its budget from foreign aid, without noticeable benefits to the population at large.

While African dictators generally are not well liked, they represent specific ethnic groups whose members fear that a new leader from a different ethnic group would be much worse for them. "The fear of falling under an equally inefficient and venal ruler that favors another group is enough to discipline supporters," Padro says.

Search online on Miquel and Dictatorship.

>In Memoriam:

Economist McMillan Could Make Economics 'Jump Off the Page'

JOHN MCMILLAN, an economist who developed theories about market design and then helped put them to use, died at his home on the Stanford campus in March of complications from cancer. He was 56.

As the Jonathan P. Lovelace Professor of Economics, he "played an absolutely crucial role in the GSB's effort to increase the international elements of its teaching and research," said **John Roberts,** who with McMillan codirected the School's Center for Global Business and the Economy. He also wrote lucidly on the economic, managerial, and political problems that plague transition and developing economies.

"John in many ways epitomized the Stanford Business School," said Dean **Robert Joss.** "He was a brilliant scholar; he made important contributions to microeconomic theory, but his special talent was in applying theory to real-world issues and problems. And he was a superb expositor. His book *Reinventing the Bazaar: A Natural History of Markets* is a wonderful exploration of why markets work or fail, based on deep theory but accessible to a lay audience."

McMillan was the foremost proponent of the fact that market design matters. In a series of articles in the 1980s and 1990s, he and Preston McAfee, now at the California Institute of Technology, wrote about how governments can minimize the cost of procurement of everything from battleships to French fries and efficiently sell assets like radio spectrum and oil tracts through proper market design. With McAfee he wrote path-breaking theoretical papers, of which two stand out. The first concerns how much collusion can be achieved by bidding rings such as groups of antique dealers bidding at estate sales if they cannot secretly make side payments to one another. The second paper concerns problems that arise when firms bid for government contracts where the winning firm's performance is of critical importance.

In addition, McMillan put theory to practical use. As a consultant to the Federal Communications Commission, he oversaw the implementation of the wildly successful 1995 spectrum auctions. He navigated political landmines in auctioning spectrum in Mexico. His

STEVE CASTILLO

*Professor **John McMillan,** right, with Bangladesh economist Muhammad Yunus, winner of the Nobel Peace Prize, at the inaugural conference of the Business School's Center for Global Business and the Economy, which McMillan helped found in 2004.*

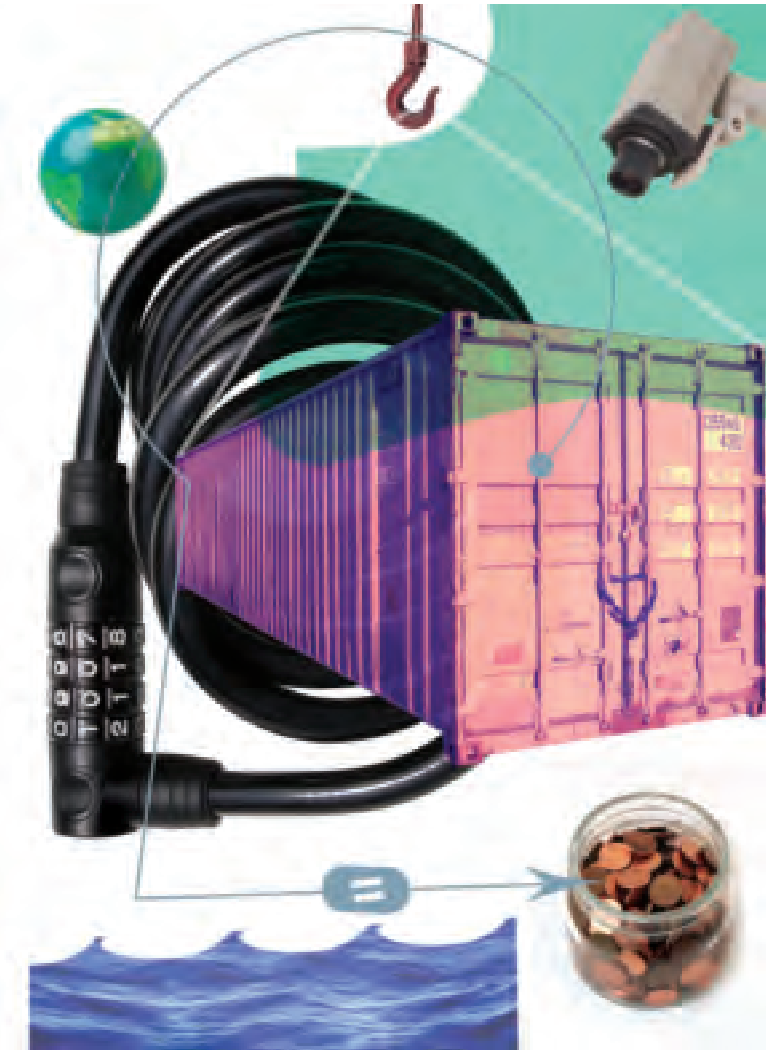
textbook on game theory, *Games, Strategies, and Managers*, brought modern game theoretic analysis to MBA education.

During the period of transition of formerly socialist economies in East Asia and Eastern Europe, McMillan became fascinated with the question of what made markets work or fail. His colleague at the time, Michael Rothschild, now at the Woodrow Wilson School at Princeton University, recalls that "John often remarked that it was a terrible embarrassment to the economics profession that it seemed to have nothing useful to say about how to create a market economy, although he also observed that having nothing useful to say did not

Continued on page 29

 | *by Margaret Steen*

Security Investments Can Save Money



STUART BRADFORD

High speed and low cost have been keys to international trade. Now there is a third imperative: security.

COMPANIES THAT MOVE GOODS around the world have been forced by everything from natural disasters to government regulation following the Sept. 11, 2001 terrorist attacks to add security measures. The cost, estimated to run in the billions of dollars, is significant, especially for those facing intense competition and pressure from shareholders to keep profits up. Now, a new study finds that although improving security does indeed cost money, it also produces benefits and may even lead to procedures that improve profits.

Three researchers from Stanford's Global Supply Chain Management Forum, a collaborative program of the schools of Business and Engineering, studied 11 manufacturers and 3 carriers to see what benefits they had gained from security measures they had put in place. Their report, "Innovators in Supply Chain Security: Better Security Drives Business Value," was published in 2006 in collaboration with the Manufacturing Institute, the research and education arm of the National Association of Manufacturers, and IBM. The authors are **Barchi Gillai,** a lecturer and director of research of the Forum; **Lesley Sept,** associate director of the Forum; and **Gauri Bhat,** a research assistant.

"Companies usually look at the direct benefits" of security investments, but those don't tell the whole story, Gillai said. "My hope is that this study will help companies look at things in a different way and see that they shouldn't focus only on the direct benefits but also see the business implications of their investment in security."

Any company doing international shipping was affected by new regulations after Sept. 11. The U.S. government started requiring customs officials to receive detailed electronic information on the contents of ocean containers 24 hours in advance. Another government initiative allows cargo containers to be fast-tracked when they arrive in the United States if they have been prescreened.

The new government rules have helped many companies get better, timelier information about the shipments of their products, which can lead to better distribution and happier customers. For example, one company said it used to receive documentation about what was arriving in a shipment just two days before a ship docked. Now, because of the new regulations, the company gets with documentation five days in advance.

Even in areas that aren't regulated by the government, companies are changing the way they do business in the face of security risks to their supply chains. Specific needs vary by industry. Companies that deal with hazardous, flammable raw materials, for example, need to guard it differently than those that are trying to keep people from stealing small, finished consumer products.

Some of the initiatives companies have taken to improve security include making improvements to their facilities to protect them from natural disasters and using interchangeable or generic parts, or more suppliers or locations, to increase flexibility in the event of disruption to their supply chains.

Some companies enhanced their internal security by instituting or increasing employee background checks. Others changed the way product packages or containers are sealed to make them more difficult to tamper with. At least one company started adding security requirements to its contracts with its suppliers.

In general, the companies in the study found that although improving security does cost money, it also produces benefits in several areas beyond a more secure supply chain. For example, one company said that because its new security policies require advance notice of what will be arriving and when, it now has better control over the raw material inventory at its production facilities. Another company was able to completely eliminate theft from its supply chain by adding an array of security techniques, from using teams instead of single drivers to using radio frequency identification (RFID) technology to track containers and trucks.

Yet another company started using a tool to electronically share information with its logistics providers and suppliers. This helped it get better information faster and find inaccuracies in its data. The company expects this tool to help cut its ocean shipping costs by 30 to 50 percent.

A company that used RFID technology to track containers and railcar shipments found that, in addition to improving security, the solution allowed it to largely automate a previously labor-intensive process. The 80 percent increase in automated data handling meant fewer data entry errors made by humans.

It is difficult to assign a dollar value to the benefits that resulted from each improvement in security, Gillai said. One reason is that security is a sensitive issue, and companies are reluctant to divulge too much about how they handle it. But even when a company calculates how much money has been saved due to lower shipping costs or a reduction in theft, for example, the company often has done several different things to bring about these improvements, and it can be nearly impossible to determine how much of the savings came from one specific aspect of security.

However, some of the companies in the study did say that "those benefits, at least for their companies, more than compensated for the investment that they had made."

Gillai said the key to benefits from many of the security improvements is not just getting new information but learning what to do with it. For example, a company may start putting devices on all of its cargo to track its location.

"They get all this data about where the goods are. The main question is, what do they do with this information? Are they able to make intelligent decisions about their inventory management? Do they interact appropriately with their customers to let them know of any potential delays?" Gillai said.

"Much of the value they can realize depends on what exactly they do with all the data they get." ●

>Security Benefits

OF THE 11 MANUFACTURERS IN THE STUDY, 8 said they could identify specific benefits from their increased security efforts. The other 3 explained that since they already had robust security systems in place for many years and/or had taken, over the years, numerous steps to improve the efficiency of their internal operations, they could report very few additional benefits following the recent adoption of government regulations or voluntary initiatives. Here is a partial list of the benefits those 8 companies found.

7 of the 8 companies experienced:

- a reduction in cargo inspections

6 of the 8 companies saw:

- less theft of their products
- better access to data about the location and condition of their goods
- money savings from improved visibility into their supply chains *(The average savings figure from the two companies that were able to quantify the savings was 7 percent.)*

5 of the 8 companies said:

- their shipping information was more accurate
- added security measures allowed them to identify problems more quickly
- customer satisfaction increased due to the measures put in place

4 of the 8 companies said:

- they cut steps from their supply chain processes
- they experienced a reduction in the delivery time window or the variance in transit time
- product tampering was reduced

3 of the 8 companies reported:

- reduced inventory levels
- more on-time deliveries
- reduced time between order placement and shipping

>Faculty Research

How You Phrase Affirmative Action Policy Affects People's Reaction

INDIVIDUALS MAY OPPOSE AFFIRMATIVE ACTION because they're more worried about disadvantaging the group they feel part of than about benefiting a minority group, says **Brian Lowery,** associate professor of organizational behavior.

In one study, white American college students were asked how much they would support four different affirmative action policies and how they thought each would affect whites versus ethnic minorities. The policies included hiring a minority person, even if a white person were more qualified; hiring a minority as a "tiebreaker" when two candidates were equally qualified; providing training to minority applicants to help them become better qualified, but not basing hires on race; and focusing on increasing minority applicants, but not basing hires on race.

Lowery found that the more whites felt the policy helped minorities, the more they were willing to support it—but only when they thought it would not hurt members of their own group. "It appears from these results that people can separate out the issues of helping minorities and hurting whites, showing that racism isn't always the issue," he says.

A second study looked at how responses differed depending on how they affected white and black Americans. One group was told the policy had reduced white employees from 90 to 82 percent of the company's workforce. The other group was given the same information but was told the policy had increased the number of black employees from 5 to 13 percent.

The higher participants scored on white-group identity measures, the less supportive they were of the affirmative action policy they saw as reducing the percentage of white employees. In contrast, individuals in the group that was told how the policy *benefited* blacks did not show differences in their response to the policy based upon how white-group identified the individuals were. In a third and related study, when participants were told that white employment remained entirely unaffected by the new policy, they also supported it regardless of how white-group identified they were.

Extrapolating from the results, Lowery says, "White people may say, and believe, they're not supporting affirmative action because it creates inequities, but in many cases the reason they think it's unfair is because they think it's hurting their group." What's missing, he says, is the recognition that in some situations one group's disadvantage is another group's advantage. Reducing unfair discrimination against blacks will increase their representation and simultaneously reduce the representation of whites.

Lowery's studies have important implications for managers interested in adopting affirmative action policies. "It's important how you frame the policies to your constituents," he says. "If you present them as somehow hurting whites and white males, you're going to get less support than if you present them as benefiting minorities."

The studies, conducted with Miguel Unzueta of UCLA, Eric Knowles of UC Irvine, and Phillip Atiba Goff of Pennsylvania State University, were published under the title of "Concern for the In-Group and Opposition to Affirmative Action" in the *Journal of Personality and Social Psychology.* ●

—MARGUERITE RIGOGLIOSO

Stanford Brings Executive Program to India

Dan Rudolph, MBA '81, *and associate dean of the Business School,* ***John Hennessy,*** *University president, and* ***James Plummer,*** *Stanford School of Engineering dean, at a discussion panel in Mumbai.*

>Faculty News

BUSINESS AND ENGINEERING FACULTY teamed up in January to offer Stanford's first multidisciplinary executive program to nearly 200 business and policy leaders in India. "Innovative Strategies for a Dynamic Economy" was the over-arching topic of the two-day program in Mumbai, which featured sessions on strategies, management concepts, and technologies that will shape the future of Indian industry.

Stanford faculty members also did interviews with Indian news media during the trip. **Hayagreeva "Huggy" Rao,** for instance, spoke about customer relations in a session with the executives, some of them Stanford alumni, and then gave an interview to the *Times of India.* He discussed how India's hypergrowth in telecommunications and retail sectors can lead companies to "rob Peter to pay Paul" as they take on too many customers too fast without making more strategic choices. Rao is the Atholl McBean Professor of Organizational Behavior and Human Resources at the Business School. Narayana Murthy, chairman and chief mentor of Infosys Technologies, and **Mukesh Ambani,** chairman of Reliance Industries Ltd., and Class of '81, also spoke during the program.


All In It Together

Achieving breakthrough business success in India requires overcoming a host of challenges—infrastructure, recruitment, bureaucracy—by deploying proven management strategies and leveraging the latest technological innovations in enterprising ways.

"No single university and no single company are going to be able to solve these grand technological, business, and societal challenges by themselves. What is key for this century are the partnerships that can be built," said **James Plummer,** dean of the Stanford School of Engineering, who participated in the program, as did University president **John Hennessy.**

Other faculty presenters included: **Garth Saloner,** the Jeffrey S. Skoll Professor of Electronic Commerce, Strategic Management, and Economics at the Business School; **Friedrich Prinz,** the Rodney H. Adams Professor at the School of Engineering; and **Arogyaswami Paulraj,** a Stanford professor of electrical engineering.

The program was a return trip to India for the Business School, which offered one-day executive education forums in New Delhi, Bangalore, and Mumbai in January 2005. The collaborative program this time reflected Stanford's multidisciplinary approach to education in which faculty and students from disciplines that are often isolated jointly explore solutions to complex, pressing problems. Meanwhile, the Business School has also launched an exchange program for its MBA students with the Indian Institute of Management at Bangalore.

Dutch Adopt Enthoven's Managed Care Plan

THE NETHERLANDS HAS BECOME the first nation to inaugurate a system of universal health insurance based on regulated competition in the private sector. Its program, adopted in January 2006, draws extensively on a plan first proposed in 1978 by Business School Professor **Alain Enthoven,** who coined the term "managed competition."

The new Dutch system requires each citizen to buy individual health insurance from an insurance company of their choice at a flat-rate minimum-premium cost of about 1,200 euros a year.

"What the Dutch are now doing is very different from what we have in the United States, where most people are insured through their employers and thus do not have a choice of insurers," explains Enthoven, the Marriner S. Eccles Professor of Public and Private Management, Emeritus. He was asked to give the keynote speech to the Dutch/Flemish Association of Health Economists last November in Rotterdam.

More recently, Enthoven has been advising the Wisconsin Health Plan to implement a system similar to that of the Dutch. Wisconsin is aiming to enact a payroll tax in lieu of employer contributions to health insurance. The state will translate this tax into a fixed premium contribution that covers the lowest priced health plan in a given district. Those who want a more costly plan will pay the difference. Insurance plans will contract with a private corporation that will manage competition and market insurance to individuals.

PHOTOGRAPH BY MAMEN SAURA

JOHN MCMILLAN: *Continued from page 25*

stop economists from offering advice."

The central question concerning these transition economies was whether they should move quickly and directly to free markets—the "big bang" approach—or whether a more gradual transition would be better. McMillan led the group of scholars that argued for gradual transitions. The big bang approach, he argued, would only work if unrealistic assumptions were met about how markets work and grow and, in particular, how market participants acted and interacted. While the big bang may have worked well after World War II in Europe, circumstances were different in this case. A big bang creates opportunities for all sorts of rent-seeking behavior and not necessarily the kind that encourages the growth of a stable market economy. History will judge, if it hasn't already, the wisdom of this argument.

The book *Reinventing the Bazaar,* which was excerpted in the May 2002 issue of *Stanford Business,* received a Notable Book of the Year citation from the *New York Times Book Review* and caused Samuel Brittan to write in the *Financial Times:* "At long last I have found a book that I can recommend to the proverbial nephew who desires to find out about economics without wanting to pass an exam or become a practitioner himself." Economics journalist David Warsh said McMillan "could make economics jump right off the page and into the mind of his reader."

Grist for McMillan's economic mill was everywhere: He and **Pablo Zoido,** MA '04, used the meticulous records kept by Peruvian intelligence chief Vladimiro Montesinos Torres to figure out that newspaper editors cost more to bribe than judges and politicians, but television station owners were most expensive by far. [See *Stanford Business,* August 2004.] In the paper "Trench Town Rock: The Creation of Jamaica's Music Industry," he shows how a cluster of small, specialized companies originally located along Orange Street in Kingston permitted Jamaican music to remain at the forefront of world music over three decades of rapid change, while four huge firms otherwise came to dominate recorded music. And in "Death and Development," written with doctoral student **Peter Lorentzen** and GSB Professor **Romain Wacziarg,** he argues that low life expectancy is perhaps the chief enemy of development in Africa. The likelihood of an early death leads to more risky behavior, higher fertility, and less investment in education and skills, enough to account for most of Africa's tragedy.

Born in Christchurch, New Zealand, McMillan was an avid mountain climber and rugby player. He earned a doctorate from the University of New South Wales in Sydney, Australia, in 1978 and then joined the faculty of the University of Western Ontario. He later helped found the Graduate School of International Relations and Pacific Studies at the University of California, San Diego, before joining the Stanford Business School faculty in 1999. At Stanford he was active in the Center on Democracy, Development, and the Rule of Law, the Freeman Spogli Institute for International Studies, and the Stanford Institute for Economic Policy Research.

McMillan's last years showed all his courage and grit. His bouts with cancer began in 1998. Despite setbacks and recurrences of the disease, he never lost his will to live, his sense of humor, his ability and willingness to mentor students and younger colleagues, or his belief that he would recover. He is survived by his wife, Patrice Lord, and stepson, Tim, in California, and in New Zealand by his mother Alice, sister Jenny, brother Murray, cousin Phyllis, and their families.

Newsmakers

✱ WHO'S IN THE NEWS: A ROUND-UP OF MEDIA MENTIONS

Nathan Hubbard, *MBA '04, lower right with the staff of Musictoday.*

Keeping the Beat Behind the Scene

Some employers give time off for visits to doctors and lawyers. At Musictoday, where **Nathan Hubbard,** MBA '04, runs day-to-day operations, employees get two "concert days" a year. Founded by a Grateful Dead fan in a former frozen food factory in Charlottesville, Va., the company quietly maintains websites for recording artists and other celebrities and helps them collect more of the profit from the sales of CDs, concert tickets, and paraphernalia than they used to get when other middlemen took charge.

Hubbard uses warehouse management software, handheld scanners, and automated packing machines to make sure fans get the Snoop Dogg rubber wristbands and Carole King yoga pants they ordered, reported *Fast Company*. Technology also helps the company keep scalpers from gobbling up all the concert tickets, Hubbard says. "When we screw up, fans don't blame Musictoday, they blame the artist." As half of the acoustic duo Rockwell Church, Hubbard doesn't want that to happen to him.

And You Thought You Had A Bad Day!

Running a regional supermarket chain in the era of Wal-Mart superstores is not easy, but as a new CEO in the summer of 2006, **Scott Schnuck,** MBA '75, had a bigger test when a huge storm knocked out the electricity to their 26 Schnuck Markets, warehouse, and dairy.

Based in St. Louis, he was able to get the warehouse up in six hours. But, he told the *St. Louis Post-Dispatch,* before power came back up "I got a call from Memphis that we have an employee that has just cracked, stormed through the store, and stabbed eight of our employees. I am sitting here saying, 'What do I do? What are my priorities?' The priority was obvious. It was to get down to Memphis as fast as I could and make sure the people who were injured had the support of the company."

Partners from Playpen to Corner Office

Picking a business partner at age 8 was a no-brainer for **John Radford,** MBA '75. His parents needed cash to make ends meet, so he and his identical twin, Steve, decided to sell mistletoe door-to-door at Christmas in Southern California.

Those sales skills came in handy again in 1977 when the twins decided nobody was doing a good job of keeping track of compensation trends in the high-tech industry. Today, Radford Surveys and Consulting is one of the leading compensation data services in high tech and biotech worldwide, says *Silicon Valley/San Jose Business Journal*. Now a unit of Aon Corp., the company has prominent clients such as Intel and Microsoft. The brothers are both senior vice presidents: Steve for marketing, and John for strategy.

Seeking a Soccer Field

She was a soccer player at Princeton, and now **Ann Rodriguez,** MBA '05, is working to bring Major League Soccer back to the San Francisco Bay Area. She is part of a team that includes Lewis Wolff and **John Fisher,** MBA '89, who are also owners of Major League Baseball's Oakland Athletics. The San Jose Earthquakes soccer team left for Houston in 2005 when an

Scott Schnuck, *MBA '75, CEO of Schnuck Markets, faced a really bad day.*

BOTTOM PHOTO: F. BRIAN FERGUSON; TOP PHOTO BY CHRIS BUCK initiative to build a stadium failed. According to the *Daily Princetonian*, Rodriguez is working with the two men who have an option to bring a team back if they can get a stadium built.

Meanwhile, **Mike Golub,** MBA '88, moved from overseeing business operations for the NBA's Memphis Grizzlies to a similar role with the league's Portland Trail Blazers.

Know When to Hold 'em

Trading costs eat holes in the pockets of mutual fund investors, so *Smart Money* magazine set out to find top-earning funds whose managers traded the least. Among those picked was **John Linehan,** MBA '98, who manages the T. Rowe Price Value Fund. In the past three years the fund returned an average of 15 percent annually, better than 81 percent of the large-cap value offerings.

That doesn't mean Linehan has no regrets, however. He did several trades in 2005 to "harvest losses for taxes, and everything I sold went up in the fourth quarter. We'll try not to do that again."

London Fends Off Unwanted Suitor

"I see a world awash with opportunities," **Chris Gibson-Smith,** Sloan '85, said in February, following NASDAQ's third failed attempt to take over the London Stock Exchange (LSE), which he has chaired since 2003. The American exchange, which owns about 29 percent of the LSE, cannot make another offer to buy out other LSE stockholders for 12 months under U.K. rules, but a consortium of bankers is threatening to set up a rival trading platform in London. Meanwhile the LSE is negotiating potential deals with exchanges in Tokyo and Mumbai.

Gibson-Smith agrees with many who say the world's exchanges are in for exponential change. But he claims that hostile suitors have failed to recognize the value of the LSE, where trading volumes, driven by rising algorithmic trading, are growing at an annual rate of 55 percent. Asked to speak about his deep strategy, the former BP geologist told the *Times* of London, "The deep strategy of companies is secret by definition, otherwise it wouldn't be deep strategy."

Asian Experience Brings Added Value

When the designer of microchips and software for transmitting video over fiber looked for a CEO, the language skills of **Greg Caltabiano,** MBA '86, mattered because the company uses manufacturers and sales teams in Asia. Fluent in Japanese and comfortable in Mandarin, Caltabiano lived for 10 years in China, where the Petaluma, Calif.–based company known as Teknovus hopes to expand next.

Its strongest markets now are in Japan and Korea, according to the *North Bay Business Journal,* which refers to Sonoma County as "Access Valley" because of the concentration of telecommunications businesses. U.S. cable companies lag Asia and Europe in pushing voice, video, and data over fiber networks, Caltabiano said.

Coin Collector Digs Farming

Kids often reject their parents' business, but after making enough to retire at age 39 from his own business, **Jens Molbak,** MBA '90, has taken over his parents' 40-acre farm and nursery in Woodinville, Wash. Molbak created Coinstar, a firm supplying machines to supermarkets that let people get rid of loose change. He retired after taking the company public in 1997 but is now bringing more perennials and grasses into the family nursery, says the *Seattle Times.* "Turns out I knew more about the nursery business than I suspected," said Molbak, who as a kid once scrubbed 280,000 pots to earn money to visit his grandfather in Denmark.

Rainmaker Finds Liquidity in Hedges

His boss calls **Gus Spanos,** MBA '88, a rainmaker—one of the first chief financial officers of a high-tech startup to turn his back on venture capital for a more favorable deal from hedge funds, according to *Red Herring* magazine. Since Spanos accepted $75 million in 2005 from hedge funds, other startups also have turned to this plentiful source of financing, which is cutting into venture capital firms' earnings, says the magazine.

***Gus Spanos,** MBA '88, raises start-up cash from hedge funds.*

Spanos works for Pay By Touch of San Francisco, which sells fingerprint-based payment systems now used in 42 states. The company has since raised $150 million more from hedge funds and private investors.

Dotshots, Take Two

In the heyday of dot-coms, **Mark Selcow** and **Matt Glickman,** both MBA '93, were the founders of BabyCenter.com, which was eventually sold to eToys for stock that promptly lost value. When their early-retirement options disappeared, the two in 2001 cofounded Merced Systems in Redwood City, Calif., a company with 90 employees and 30 customers that makes software to help firms track the efficiency of their call center operators, according to the *San Francisco Chronicle.*

What did they learn from their limited success with BabyCenter? Said Glickman: "In hindsight, we could have raised more money. We've learned about the value of holding on to your company."

Don't Hover Too Closely

As chairman of India's Reliance Industries, **Mukesh Ambani,** a member of the MBA Class of 1981, faces a lot of tough decisions, but some of the toughest relate to inspiring his children to find their talents. "When my kids, Isha and Akash, were in the third standard, we behaved as though it was our exam," he told Rediff.com, India's largest online news and entertainment service. "I know everything and I can beat any parent my age," he said with a chuckle, but "the trick is to light a fire" in your kids so they want to learn by themselves.

His own entrepreneurial father "never came to our school," Ambani said, but spent Sundays with his family on activities like nature walks and baths in streams. "It's easy to be with your kids and say let's do homework together," Ambani says.

Somehow academics stuck with him—his mania for testing has deep roots. "My friends and I wrote all sorts of competitive exams," he recalls. "It was mainly driven by a desire to prove to ourselves that we are no less than anyone in the world. We even took the civil service exams just to see if we could get onto the list."

Real Estate Leader

In one of the hottest real estate markets in the world, **Janet Case,** MBA '91, steers two associations of realtors—the San Mateo and Silicon Valley regional associations. As one might expect from such a perch, she is also familiar with virtual real estate. Reports the *Silicon Valley/San Jose Business Journal,* she initiated a joint effort of 11 regional associations to upgrade digital lockbox systems so that agents can access properties—you guessed it—over the internet.

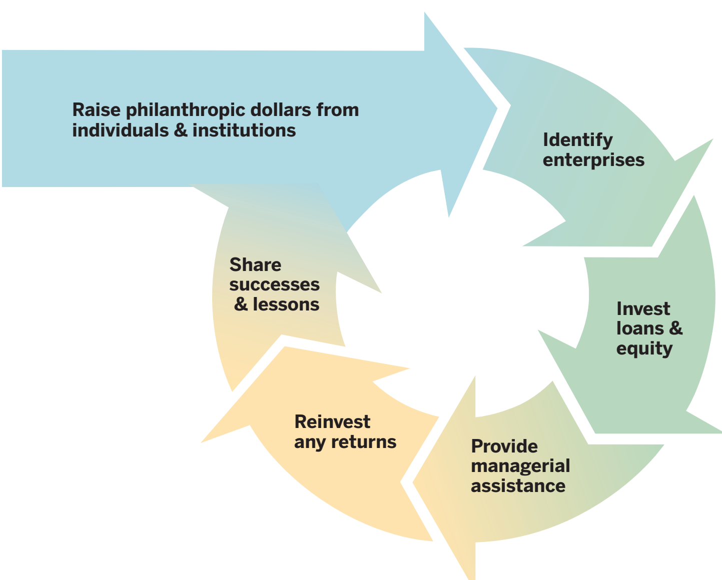
RED HERRING

mission, the three realized they also had to develop more metrics for measuring success. "Measuring capital return is easy. Quantifying social return is not," says Novogratz.

Still a work in progress, Acumen's system involves measuring how many consumers have access to a particular product or service, the financial viability of the enterprise providing it, and whether the company has the ability to serve the poor on an ongoing basis. Novogratz and her team work with each enterprise to determine the most important financial milestones for their business—say, customer retention or total product sold—and then ask for quarterly reports based on those metrics.

Trelstad also developed an innovative way to measure social progress. Called the Best Available Charitable Option it evaluates how much it costs Acumen to support an enterprise and compares that to the expenses that an appropriate charitable organization might incur. So far, of 20 active investments, 10 have come up positive, four undecided, and two negative.

How Acumen Works



In the past two years Novogratz has turned her attention to striking up partnerships with larger institutions. She also hopes to bring at least $100 million to underserved markets over five years and to be the catalyst for a large movement around market-based approaches to social change. Big boosts have come from the Google and the Bill and Melinda Gates Foundations, which have helped fund Acumen expansion. In 2006 Acumen opened offices in Karachi and Hyderabad and plans one for Nairobi. A new fellows program trains promising young people and sends them into the field as advisors.

Behind much of what Novogratz undertakes are the lessons of her Rwandan experience. A quilt made by her bakery colleagues hangs in the conference room of Acumen's New York office, a poignant reminder that nearly all of those women died in the genocide of the 1990s. In the microfinance organization Novogratz worked with there, "women played out every role of the genocide: witness, bystander, victim, and perpetrator," she says. "It underscores for me why systems are so critical not only to economic development but, ultimately, to peace."

do." Professor William Barnett, who is leading an executive education program at Stanford in September on "Business Strategies for Environmental Sustainability" (see advertisement, page), cites recycling and energy conservation as two examples of ways in which "many businesses find that they can actually do business better by thinking about the environmental impact of their activities." When businesses reduce the amount of packaging they use in their products, "this ends up being a cost driver that improves the bottom line of the business on the commercial side at the same time it improves environmental sustainability," he said.

Still, "not all business practices can be understood this way," he said. "Sometimes there are straight tradeoffs." Reducing the pollutants emitted by a factory, for example, may cost the company more.

3. **SOCIETY IS THE ULTIMATE SHAREHOLDER.** **David Pitt-Watson,** MBA '80 and co-author of *The New Capitalists,* argues that the "ultimate shareholder" ends up being "millions of people invested through things such as pension funds." This creates "enormous overlap" between what's good for shareholders and society.

"We're saying social and private interests go together," said Pitt-Watson, director and former chief executive of Hermes Focus Asset Management, the largest shareholder activist fund in the United Kingdom. "Companies should be really profitable in the long term. They're not going to solve all our social problems. But the theoretical problem that we had 40 years ago about how to reconcile corporate social responsibility with shareholder value—that shouldn't worry us any longer."

Not everyone sees it this way. "All decisions will be weighed against profitability," Brady said. If a company is considering drilling for oil in a location where residents are concerned about the effects, the company may decide to take less profit in order to mitigate the impact. "But if it gets too expensive, they won't do it." Pitt-Watson agrees that "competitive forces can encourage companies to do things that are not sustainable or socially responsible. If everybody else is putting waste in the river, will you spend money not to?" One solution, he said, is for companies to lobby for a change in regulations so that no one is allowed to dump waste in the river and the playing field is level.

In the end, it's probably not realistic to expect every company to score well on a long checklist of social goals, Katz said. "It's hard to create a profitable company. It's even harder to create a profitable company where people enjoy coming to work, and add layers of social responsibility on top of that." Still, she said, "to the extent that companies are aware of all the stakeholders when they're making their decisions, they're going to make better decisions. I think there are clearly more companies thinking more broadly about the stakeholders they affect than there were 20 years ago."

As the issues have become more complex, so has the thinking about them. "I think we're really at a threshold of a time where we might start coming up with solutions to some of the problems that have been vexing us," Barnett said.

"Environmental awareness has become sophisticated enough not to boil down to mere contradiction," he said. "You would be hard pressed today to find a business executive who doesn't feel that environmental sustainability is important. You'd be hard pressed to find an environmental activist who wouldn't be willing to have a conversation with a developer about how to achieve their objectives."

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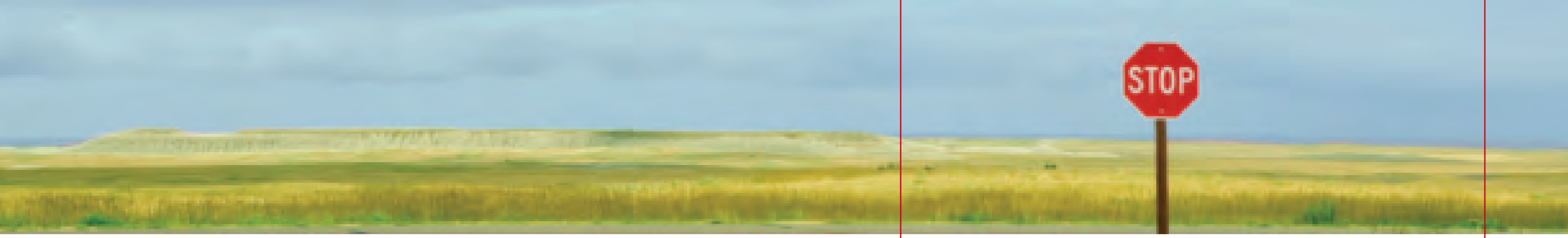

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