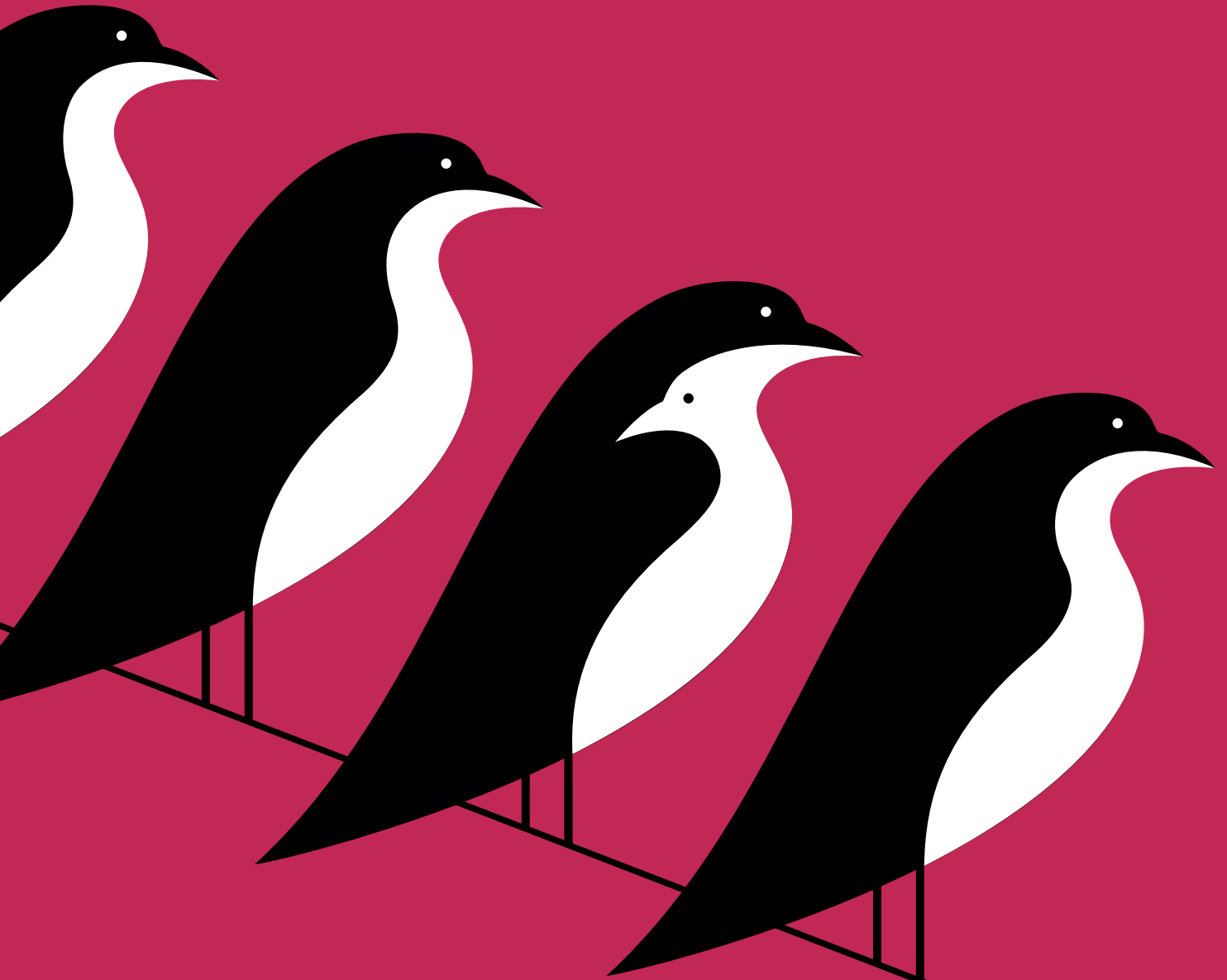


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A LETTER FROM

DEAN JONATHAN LEVIN

Realizing What Is Possible

This fall I had the great honor of starting my term as the 10th dean of Stanford Graduate School of Business. Over the last 16 years as a member of the Stanford Economics Department, I have admired the remarkable environment at Stanford GSB. It has been a pleasure during the last few months to meet with faculty, staff, students, and alumni and to learn more about the GSB's unique strengths and our opportunities for the coming years.

One of the reasons I came to Stanford at the beginning of my career was the distinctive feeling of possibility and opportunity that pervades the campus. Recently I met Peter Wegner, who designed the inspiring artwork at the Knight Management Center. He told me about his creative process and how he had sought to

understand the school. He too came to the conclusion that the essence of the GSB and of Stanford is the focus on what is possible. He summarized this beautifully in the cornerstone of the Knight Management Center: "Dedicated to the things that haven't happened yet and the people who are about to dream them up."

This feeling of possibility is central to our research and teaching missions. We seek to generate new ideas and evidence that inform management practice and public policy toward business, and to create an educational experience that will enable our students to enter the world as transformative managers and leaders.

Today, we have tremendous opportunities to advance both of our missions. The confluence of challenging social and business problems — inequality, climate change, globalization, the impact of engineering and biomedical advances — offers opportunities for both education and scholarship. Improved data and computing are revolutionizing the examination of these issues and many others in management. Our faculty excel at developing powerful frameworks to understand leadership, organizations, and the role of business in society.

Crucially, Stanford GSB continues to be an intensely innovative educational environment. We benefit from having small classes with enormously talented students. Our MBA and MSx programs strive to marry analytical rigor with a focus on personal development and experiential learning. Faculty are encouraged to invent

new courses and experiment with new approaches to teaching. Our location in Silicon Valley is the envy of our peer institutions; the region is suffused with the same feeling of possibility as our business school.

We are also exceptionally fortunate to be located on the Stanford campus. The university has never been stronger. There is enormous interest across campus in the role that businesses can play in addressing key social problems. We have an exciting opportunity to deepen our connections with the broader university and to find new ways for faculty and students at the GSB to engage with their counterparts in other schools.

More than any time in the past, Stanford GSB enrolls a remarkably diverse set of students. Our entering MBA class includes students from 62 countries, including a student who helped lead rebuilding efforts after the Fukushima disaster in Japan, another who wrote speeches for the prime minister of Kosovo, and a third who led Brazil's Davis Cup tennis team. Forty percent of our entering students are female and 29 percent are U.S. minorities, a level of diversity that far exceeds the senior levels of U.S. corporations. If we execute on our mission of training outstanding leaders and supporting them through their careers, we have the opportunity over time to substantively affect the face of business leadership.

Finally, the aspect of the GSB that has stood out to me perhaps more than any other is its deep sense of community. The connections that students form with each other, and with faculty and staff, are truly remarkable and long-lasting. This fall, I was reminded of how these bonds persist over decades when I attended dinners for two longtime faculty members, Jack McDonald and David Kreps. Some of their former students attended and spoke of the profound influence Jack and David had on their lives and careers. I am confident that the GSB's close-knit community will continue to be one of our defining assets.

The future of Stanford GSB is exceptionally bright. I'm excited to carry forward the school's mission and to work with its community to realize what is possible. ▲

Jonathan Levin is the dean of Stanford GSB and the Philip H. Knight Professor.



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your story, you better

**make sure
it’s true.”**

— Glenn Carroll

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Stanford Business

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FROM STANFORD
GRADUATE SCHOOL OF
BUSINESS

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A few final words on our theme

Cover illustration by Noma Bar

FROM THE EDITOR

WHAT WAS YOUR FIRST JOB?

Even though this is our Autumn issue, we are already looking forward to spring, and we need your assistance. The theme of the Spring issue will be Beginnings, and we want you to tell us about your first real job and what it taught you. We've created a very brief SurveyMonkey poll, which you can reach through this link: <http://stanford.io/firstjob>. You get to decide whether it's the first job you got after you turned 16 or the first after you graduated from college. Either way, we just want to know how you got it, how long you stayed, and, most important, what long-term lessons you learned. ▶ My introduction to the workings of a small business, for example, was from behind a bakery counter. I navigated every type of customer personality and quickly learned which of my supervisors had the most effective management style under pressure (think lines out the door for Thanksgiving pumpkin pies). ▶ We'll print the results if we receive enough reader responses. The survey is anonymous, but if you opt in with your name, you'll have a chance to see your comments in print. ▶ Meanwhile, as always, we'd love to hear about anything else on your mind related to the topics we write about. We'll gladly accept emails or letters if you prefer to forgo the online survey. I hope you enjoy the insightful work of our Stanford GSB faculty and alumni in this issue as it relates to the concept of authenticity. Write us at stanfordbusiness@stanford.edu. — DEBORAH PETERSEN, EDITORIAL DIRECTOR



Artist Georgia O'Keefe (right) and backcountry guide Orville Cox at Canyon de Chelly National Monument in Arizona in 1937, as photographed by Ansel Adams.

ENGAGE

Readers Share Their Thoughts on Equity

In the Summer 2016 issue, the infographic on compensation shows that CEOs are paid, on average, 300 times more than the average worker.

I am a member of the MBA Class of 1968. The MBA education was much different then. It was an education in fundamentals. We studied financial and cost accounting intensively. We mastered concepts like sunk costs, marginal costs, and balance

sheet deciphering. We did our calculations on slide rules and went to the library to use calculators that sounded like stamp mills. We also learned what accounting principles meant, understood the term fiduciary responsibility, and more importantly, knew they were not shades of gray.

The Stanford MBA Class of 1968 has prospered handsomely and has been very generous in support of the business school since graduation. I enjoy capitalism and believe that it works well, within limits.

I do not remember learning, or expecting, salary multiples of 300 times. We thought 10 or 20 times was a handsome reward. We thought about the benefits of owning stock for the long term, and could see the value of stock options, and holding the shares for a decade or more, and

believed that rewards earned that way were appropriate and sought situations where they were a possibility.

I wonder if other members of the Class of 1968 remember our induction into the world of modern business management in that light, or if my perceptions are solely my own bias.

—SCOTT MCGILVRAY
Stanford AB Economics 1966
Stanford GSB MBA 1968
<http://stanford.io/mba>

When I began to read your snippet in the Summer issue, I thought, “Here we go. Another pseudo-intellectual liberal diatribe about how women get paid less than men due to gender bias.” The first thing that ran through my mind was, “She needs to talk with Maggie Neale to find out the *real* reason men earn more than women.” Then, in Column 2,

you reveal that you’d attended an all-day seminar with Maggie! I never laughed so hard in my life. Don’t tell Professors Pfeffer, O’Reilly, or Burgelman, but Maggie has always been my favorite.

I look forward to learning much in this new Engage feature.

—MARK TALLMAN
Stanford GSB Executive Program for Growing Companies, 2004
<http://stanford.io/sep>

Share Your Commentary With Us

Email stanfordbusiness@stanford.edu or send a note to Deborah Petersen, Stanford GSB, Knight Management Center, 655 Knight Way, Stanford, CA 94305.

STANFORD BUSINESS

ONLINE



Mary Barra

WEB

“If you truly want to ‘change the world,’ you need more than talent. You also need to do the work, because hard work beats talent if talent doesn’t work hard.”

Mary Barra (MBA '90), CEO of General Motors, on four insights every B-school graduate should know.

Read more: <http://stanford.io/Barra>

WEB

Chicken or Egg?

Does a hit TV show drive online conversation, or is it the other way around? Thoughts from Stephan Seiler, a marketing professor. Read more:

<http://stanford.io/tweets>

YOUTUBE

Curb Bias in the Workplace
We can offset stereotypes with the right tools, says Shelley Correll, a professor of organizational behavior.

Watch more: <http://stanford.io/Bias>

WEB

How Racial Threat Galvanized the Tea Party

Research by professor Robb Willer explores the link between racial animosity and the Tea Party movement.

Read more:

<http://stanford.io/teaparty>

EDITORIAL

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Lives



**“If I’d
accepted
the first
100 no’s,**

we wouldn’t be here today.”

Norma Blair

— Joanna McFarland PAGE 16

BRAND

Authenticity Sells — but Only if You Don't Flaunt It

A professor deconstructs the origins and future of “authentic” branding.

BY STEVE HAWK

Authenticity is hard to come by, especially for a business. And yet these days the conceit of being authentic has become an indispensable and ubiquitous selling point, most frequently employed by restaurants but also by the makers of such common consumer goods as shoes and furniture — and even such unlikely products as cosmetics and vacation tours.

Few people have studied or thought more about authenticity, both as a tangible attribute and as a social construct, than Glenn R. Carroll, the Laurence W. Lane Professor of Organizations at Stanford Graduate School of Business. We talked to him recently about how authenticity is created, how it's defined, and why consumers are increasingly drawn to it.

When did the concept of selling authenticity start? It's only been in the last 20 or 30 years that the idea has gained purchase. Of course, the idea of using authenticity to sell something is kind of self-contradictory and ironic, because the whole point of being authentic is not being strategic but instead behaving in a way consistent with true underlying identity and values.

If you think of it in terms of a human characteristic, anyone who is truly authentic never draws attention to it. That's right. In fact, we have a paper in the works now that shows that restaurants that explicitly claim to be authentic on their menu or in their advertising in fact suffer penalties. So if you're perceived as authentic, it's good for you — but only if others say it about you. You, yourself, you almost need to disown it.

Which presents a dilemma if you know it's going to be good for business. Not necessarily. It's just revealing who you are and what you are — your identity — and making that transparent. And to the extent that the authenticity in a brand is simply about transparency of your true identity, then it doesn't have to be contradictory.

Glenn Carroll is the Laurence W. Lane Professor of Organizations and senior associate dean for academic affairs at Stanford GSB.



GLENN CARROLL
Just because they seem authentic doesn't make craft beers better than the mass-produced kind.

In your paper, you describe authenticity as a social construct — a cultural attribution versus some kind of measurable, intrinsic value. Can you expound on that?

There's a long tradition of trying to verify the origins of works of art, or documents, or any artifact. It can make a big difference in the thing's market value. It's called authentication, and it doesn't necessarily have to be about origins. It could be, "Did Jackie Onassis [former First Lady Jacqueline Kennedy] wear this dress?" That's an objective question with an objective answer.

Now that's very different from saying a restaurant serves authentic Greek food or that Donald Trump is an authentic person, because in those cases there is no objective answer. It's simply an attribution. We can

argue about the facts and the criteria that are relevant to it, but no matter how long we go at it, there will still be doubts about whether or not it's truly authentic. Now, as a sociologist I'm interested in questions about the subjectivity of things, because even though the answer to that question — Is a restaurant authentically Greek? — is absolutely subjective, people behave as if there's an objective answer.

They think of authenticity as quantifiable. Yes. People will pay more for dinner at a Greek restaurant that they believe to be authentic even if the quality of the food is not as high, or even if it's known to be less hygienic. When I first started studying the beer industry 25 or 30 years ago, it was dominated by mass-producers, but then a specialty segment of microbreweries arose and began to flourish. Some of the early microbreweries and brewpubs were very, very good — high-

quality operations making excellent beer. But many of them were not. They were just trading on the fact that they were small-scale craft producers doing something different. And they didn't really know how to brew beer.

A lot of beer drinkers believe that almost any microbrew is better than a mass-produced beer.

Yes, but the truth was that Anheuser-Busch, Coors, and Miller had all the beer-making expertise and technology you'd ever want. They were truly masters at brewing — just this unparalleled kind of production and quality control in that system. Even if you didn't consider the volume, their quality was, without a doubt, stellar. And the microbreweries' quality was, at times, questionable. But people associated the craft operation with higher quality and certainly with higher value and were willing to suspend a lot of judgment. I think that's true for lots of products and services these days.

How much does anti-corporate sentiment play into it?

It's often a big part of it. With the microbreweries, that was explicitly part of their early campaign: "Let's get off mass production." It's oppositional. The irony with people who are primarily oppositional is that they don't always like it when the big corporations start to listen to them. Take organic food and Walmart. A lot of people who were advocating for organic products and sustainability got very upset when Walmart got on board with them. Walmart embracing organic food should be a great thing, right? But everyone was like, "No, no. They're not allowed to because they're the bad guys."

Why are we drawn to authenticity?

Part of it is an attempt to individuate ourselves and find something that's different and more appealing to us than it is to the masses. We all do that. We find satisfaction and gratification in it. And I think that's fine. There are theories that it has to do with the loss of identity in mass society — that we're all trying to individuate ourselves. But the irony there is that you can predict how people are going to individuate



NOTHING ARTIFICIAL Consumers prefer brands that are true.

themselves pretty much by their social class, their upbringing, where they live, stuff like that. You and I, living and working in the Bay Area, are much more likely to have similar tastes than someone who grew up in Iowa and works on a hog farm.

What has surprised you the most as you've looked deeper into the concept of authenticity? Well, this is rather preliminary at the moment, but the thing that surprised me about the research we're doing now is the power of moral authenticity, which is a claim about the underlying values at work in the producer organization and held by its owner-founder. It seems to be stronger than any of the other kinds, such as "type" authenticity, which is about category or genre fit and is the kind of authenticity that many restaurants claim — that they're authentically Greek or Italian or whatever.

Tell us more about moral authenticity. It's most often referring to people. When people call someone authentic, they're saying, "This is a person who thinks through things, who has made a set of choices about his or her life, or whatever they're doing, that is based on his or her own kind of morals and beliefs. They're not just accepting the script that's been handed to them by society. They've worked it out themselves and they're an individual. They're an authentic individual."

That usually applies when we agree with the person's moral choices, but not always. I might think of you as authentic even if I don't like you. This brings us back to Donald Trump. There are many people who think he's authentic but don't necessarily agree with him. They admire that he's doing things a different way and has chosen his own path.

How does moral authenticity apply to a business? It's all in what the values are behind the business and how you tell the

story about them. Can you explain why your business is morally different? Why it is not simply seeking profits or market share to enrich you or someone else? Clearly, you can tell the story wrong and get into trouble, especially if you're only trying to act like you're authentic. Also, you need to be fully transparent, which goes against a lot of people's impulses, because they want to control information. If you open up and start telling your story, you better make sure it's true and that you're actually doing what you claim you're doing, because you'll be found out if you lie or exaggerate. Someone will eventually discover the hypocrisy and go around telling everybody about it, and you'll be worse off than if you hadn't gone down that route in the first place.

So the takeaway for someone starting a business is to make sure you do something you believe in? Well, again, the first thing is to make sure the story is true. Of course, there will always be people who won't like your story. You have to accept that and hope that the people who do like it are strongly attracted to it. When that works, when people are attracted to your moral authenticity, it gives them a unique attachment to your product or service, because your identity is inalienable. Nobody else has your story, and no one can take it away from you. That's the ultimate strategic position a firm can have.

What else has surprised you? What strikes me as really interesting is that in advanced economic systems, we're seeing that more and more products and services — at least, personal products and services — are being chosen on the basis of their perceived authenticity. Among consumers, the appeal of authenticity is stronger than almost any other attribute. I don't know whether it means that quality has become so good that we can now make choices on this new basis or whether we're just not as concerned about quality anymore.

Why in advanced economies? Again, I'll go back to microbreweries. When I was doing these studies in the '90s, I spent six months in Hong Kong and went to visit the South China microbrewery there. The managers told me that most of their customers were expatriates from the U.S. and Europe, who all came to their product because it harkened back to old, handcrafted methods. But the brewery was having trouble breaking into the Chinese

“Nobody else has your story, and no one can take it away from you.”

market, because the last thing the locals wanted was something handcrafted. They wanted their beer to come from big, modern factories that used the latest methods and quality-control systems. I've spent a lot of time in China, and only lately are you starting to see an increased interest in product authenticity. Before that, it was like the 19th century in the U.S., where mass production and automation were regarded as good things, because they made products that were cheaper, safer, and more readily available.

So it wasn't that the Chinese saw the mass-produced beers as more authentic. They just wanted a high quality, low cost beer. So that led me to think, "Isn't there something in these Asian societies that has the same kind of appeal that microbrewed beers have in the U.S. — something that's romanticized beyond its objective characteristics?"

And did you find that? We did. It was tea, especially green tea and white tea.

Tea. Yes. Many Asian countries, including China, have these little gourmet tea houses, and a lot of them tell stories about how the tea they serve comes from these special mountains and is picked in the moonlight by monkeys and crazy stuff like that. A lot of the appeal is found in the story behind the tea. And the tea is good — don't get me wrong. But I suspect that in any objective taste test, it would be hard to distinguish the teas that have these authentic stories from those that don't. ▲

INTERACTION

How to Act with Power

Lessons from the stage can help you project true authority.

BY MARTIN J. SMITH

For more than a decade, business expert Richard Cox has been using improvisational theater techniques to teach aspiring corporate leaders how to become more authentically powerful. “You can’t afford to not be good at this,” says Cox, whose management design firm, People Rocket, has worked with executives, leaders, and teams at such firms as Google, Cisco, and JPMorgan Chase. “You depend on your job as a leader to get other people to take actions. You need to be skilled in relationships, in influence, and in communication. There’s no getting around it.”

Group dynamics and body language are among the concepts covered in *Acting with Power*, a course at Stanford GSB led by Deborah Gruenfeld, a professor of organizational behavior and the author of many articles on the psychology of power and group behavior.

This is “the secret language of power” that will help students project authority while remaining true to themselves, says Cox, one of the course lecturers. “It gets labeled as soft skills, but it’s really a hard business driver,” he says. “And there’s hard science underneath it, so we understand how it works. It’s a critical piece of being an effective communicator.”

He shared some of these lessons during an interview with *Stanford Business*.

YOU’RE ALREADY AN EXPERT

Cox says most people subconsciously rely on nonverbal communication to get through the day. “Just navigating the line at coffee and traffic and walking on public transit, you’re speaking that language of power in negotiating who moves out of the way, what gestures you make, and who takes what seat.”

For example, consider how a tight knot of people at a cocktail party react when someone new approaches. “That circle is either going to open up and invite that person in, or it’s going to close ranks because it’s not, for whatever reason, OK for that person to enter,” he says. The group reaction is nearly instant and without discussion; they do not hold a vote to determine what to do. “It’s just six or seven people simultaneously reacting to small verbal cues and nonverbal cues.”

BE THE PERSON YOU PROJECT

Cox says many people assume acting involves pretending, but actors who are just pretending are usually easy to spot — because they’re not very good. “Acting is about finding a truthful place,” he says.

“And when we see that, it’s believable because it’s authentic. Authentic means being in tune with your true emotional state, not something you are ‘putting on.’” The good news is that it doesn’t require you to be anything other than who you truly are. “Everyone can be authentically authoritative, or authentically approachable,” he says. “My authentic authority, my authentic power, is different from yours, which is different from everyone else. But it’s truthful.”

MASTER THE DAILY IMPROVISATION

Effective business communication is all about acting and reacting in a sort of emotional feedback loop, Cox says. “Every social cue, every nonverbal behavior, every gesture, is an offer, and then you get to respond to that offer and that becomes an offer back to me.” Humans are hardwired for that kind of communication. “We have mirror neurons that help us synchronize. If I just start smiling a little more, you’re likely going to start smiling.” That’s the nature of improv, he says: “We’re constantly making it up, all the time. “That’s why it’s a really useful tool, because nobody gets a script to start their day.”

IT’S NOT JUST ABOUT WORK

The same techniques can improve life at home as well as at the office. Cox cites that moment when you’re about to enter your house after a long day of stress, traffic, and assorted aggravations. He urges people who are returning home from work or school exhausted to spend 30 seconds outside the front door consciously shifting gears. “Think about who’s on the other side of the door — how much you care about them, how you want to show up for them,” he says. “And that will start to change you. You can put a smile on and change your body.” The person who walks through the door is still an authentic, truthful you. ▲

Richard Cox is a lecturer in management at Stanford GSB.

Illustration by Abbey Lossing



PERCEPTION

Breaking the Cycle of “Colorism” Bias

A Stanford GSB alumna challenges Hollywood and advertisers to portray the world as it is.

BY MARTIN J. SMITH

Southern California native Chika Okoro recalls the day she discovered the casting call for a 2015 film she eventually saw in theaters three times: *Straight Outta Compton*.

“The movie had already come out, and I’m no actress, so I wouldn’t actually audition,” said Okoro in “Confessions of a D Girl: Colorism and Global Standards of Beauty,” her TEDxStanford 2016 presentation that addressed the role that subconscious bias plays in culture. “But I just wondered, hypothetically, if I did, what role would I get?”

The filmmakers had divided potential actresses into four categories. The “A” girls were “the hottest of the hottest, models, must have real hair, no extensions.” The “B” girls had “long natural hair, must have light skin. Beyoncé is the prototype here.” The “C” girls were “African-American girls, can have extensions, must be medium- to light-skin toned.” And finally, the “D” girls were “African-American, poor, not in good shape, must have a darker skin tone.”

Okoro describes feeling betrayed. “Things like that convince dark-skinned people that they’re not normal,” she says. “It makes you feel unrecognized and invisible.” She adds that “in my world, this phenomenon is all too familiar, something just as sinister and subtle as racism.” But she also sees progress. For example, Naja, an L.A.-based lingerie and swimwear company, now offers the color “nude” in seven different shades.

Okoro, a Harvard undergraduate alumna who finished her graduate work

at Stanford GSB in mid-June, is currently considering product marketing or strategy-development jobs at a number of early-stage startups. We talked to her about how colorism and subconscious bias play out in business culture.

You asked executives to consider colorism as they develop the “face” of their brands. Do you feel they have a responsibility to do good beyond their own business objectives? I think they’re in a position to have a disproportionate influence. I just think it’s responsible to portray different types of people — color, size — to represent what the world actually looks like, as opposed to what we’ve been shown is the right way to look.

As much responsibility as, say, Hollywood and the arts? I think they all play a part. It’s a cycle. TV and movies show us what’s desired, how we’re supposed to be, and consumers pick up on that. And as those Western images have spread, America has gained global influence. So many cultures now aspire to American standards. Advertising and corporate America influence people to look a certain way through clothes and makeup. Everyone needs to play a part in breaking that cycle by not just showing one type of look, person, or way of being.

What made you pursue these questions? I started noticing it in middle school, and I continue to notice it. Who are the girls that

guys talk to? Who do I see on TV? I didn’t see a lot of people who looked like me, but I couldn’t put my finger on it. Once I got to college and started studying critical race theory, I got it. That *Straight Outta Compton* casting call was just a blatant example of how these biases are still prevalent.

So now that you recognize it, has it changed your personal behavior? In some ways. Some days I wear my hair straight, other days it’s in braids. I like variety. But sometimes I wonder: Do I like variety, or do I really wish I had long, straight hair? It’s a subconscious voice, and I go back and forth with it sometimes.

Does that feel like a healthy personal debate, or is it something you

Photograph by Christina Gandolfo



CHIKA OKORO Prejudice plays out in subconscious ways.

struggle with? It's complicated, trying to isolate yourself from the messages you've been fed your entire life. I want to say I'm a completely independent thinker and not affected by those messages, but it's hard to completely disregard what I've been taught. I want to disentangle how much of my choices are influenced by other messages. I think it still does affect me, and it's more prevalent in some parts of my life than in others.

Such as? When I'm interviewing for jobs. Do I straighten my hair so I look a certain way? How would I fit into a particular corporate culture? I like to think I can go in braids and it'll be fine. But there are also times when I fall into the belief that I should do what I know will be safe,

thinking maybe it's best to walk in there with my extensions and straight hair. Why risk wearing my hair natural or in braids?

Given the current racial polarization in the U.S., where does colorism fall on the spectrum of social priorities?

It's part of this overall idea of what's accepted and what's not, what's right and what's wrong. A lot of what we're seeing in terms of police violence is an unconscious bias against people of color. These are messages we've been fed for a long time; it's very easy to criminalize black men. Right now our country needs to analyze the belief systems that lead us to characterize people in certain ways. We need to look for these biases.

Any signs of progress in corporate culture?

There's a big discussion about subconscious bias now in Silicon Valley. Just being aware is important, because that leads to a discussion about what actions can be taken. It's an evolving, ongoing process. I know it'll take time, because it's a cultural shift. But people are talking about subconscious bias, and I think there's a desire to overcome it. No one wants to think they're being unfair. We now understand these things are going on, and people are open to that conversation. That's progress. We can't change things we don't know exist. ▲

Chika Okoro received an MBA from Stanford GSB in 2016.

PERSEVERANCE

Do What It Takes to Get a “Yes”

The cofounder of a children’s ride service channeled her unbreakable grandma.

BY ERIKA BROWN EKIEL

Joanna McFarland’s startup almost didn’t start. For six months she unsuccessfully pitched insurance companies, trying to find one that would underwrite her business: an Uber-style transportation service for children. “If I’d accepted the first 100 no’s, we wouldn’t be here today,” she says. With every rejection, she heard her Bubbie’s voice in her head, urging her to never give up. Her grandmother, Rose Buchalter, was a Holocaust survivor who’d worked the fields in a labor camp in Uzbekistan. Her unbreakable determination enabled her to make it out alive, while also saving her two younger sisters.

McFarland is cofounder and CEO of HopSkipDrive, a service that matches parents with drivers who shuttle their kids to and from school and activities. She is well aware of the biggest challenge of her business: Many parents have a reptilian fear of strapping their child into a car with a stranger. HopSkipDrive invests in background checks, driver profiles, and tracking technology as a way to build trust. McFarland, along with cofounders Carolyn Yashari Becher and Janelle McGlathlin, launched HopSkipDrive in November 2014 in Los Angeles. It has since expanded to Orange County and the Bay Area.

Why is this idea resonating right now?

Families are busier than ever. A recent Pew Research Center survey said 60% of kids in America live in families where all the parents work outside the home. Kids are also busier than ever. They have an average of five hours of extracurricular activities per week. Also, 40% of parents say their work schedules are affected on a weekly basis due to child transportation, and 47% have said their work schedule has prevented their kids from participating in an activity.

Why is this something you wanted to solve? I was one of those parents. I remember

telling my son, “I’m sorry but you can’t do karate because I can’t get you there Tuesday afternoons.” There are three cofounders of the company, and we are all moms. Between us we have eight kids in five schools and 17 activities. We were all struggling. We thought there had to be a better way.

How do you help parents get past the fear of letting a stranger drive their kids?

We set this up for ourselves from the beginning. What would it take to put our own kids in HopSkipDrive cars? We designed safety into every aspect. It starts with screening the drivers. They have to pass a 15-point certification process. We fingerprint everyone. We do background checks. They are on the TrustLine registry. We do car inspections, driving record checks, and reference checks. We meet every single driver in person. We do more than most people do when they choose a nanny or babysitter. You’re probably not doing DMV checks on your friend’s kid’s nanny, but you may be letting them drive your kid to an activity. We monitor every ride as it’s happening. The parents can track each ride in our app. We also have safety checks for things like speeding and phone usage.

Do you use it for your own kids? Yes, we all use the service all the time. I use it to get my oldest son to karate. I get a picture and a profile of the driver. I show Jackson the profile. My son is 8 so I need to authorize the driver to sign him out of class. Also, he has a code word. The day of the ride she shows up in a bright orange shirt, she has decals on the car and a booster seat. She gives him the code word so he knows it’s her, and off they go. I get notifications about the ride when they leave and when they get there.

You’re serving a few types of constituents — kids, parents, and drivers. How do you

describe each of them and how do you need to serve them differently? Our kids range from age 6, all the way up. We drive lots of 17-year-olds who don’t have licenses. We drive anyone who needs a little extra caregiving — seniors included. A mom might be in the sandwich generation. She has a kid going to an activity and also needs help getting her mom to a doctor’s appointment. Mostly it’s kids going to school and activities like dance and soccer. Tutoring is a big one. In Los Angeles we also have kids going to auditions. It’s life-changing for them. They couldn’t get there otherwise and this enables them to do what they want to do. This makes them feel important.

“Important” as in, “Excuse me, here comes my chauffeur?” More like, “I used to be the last one picked up, my mom was always late, and now I have someone here on time.”

How about the parents? What are they like?

They tend to be busy dual-income families. Maybe it’s both parents are working or maybe they are single-parent families. Some divorced parents use us for the custody exchange — we are a great way to never see your ex!

Who are the drivers typically? Our drivers — we call them “CareDrivers” — have a minimum of five years of child care experience. They are moms, empty-nesters, part-time nannies.

If there was one thing that has enabled you to be successful as an entrepreneur, what would it be? My cofounders. We divide and conquer and complement each other’s strengths and weaknesses. The startup life can be so lonely. There are so many high-highs and low-lows — often within five minutes. Having a partner who can understand you is so important. You get so much farther, faster.

What gave birth to the idea? Janelle and I have known each other for eight years. Our kids went to preschool together. We were at a birthday party in late 2013 and all the moms were talking about this problem of driving the kids around. We joked and said we should collectively buy a van and hire a babysitter. Janelle was like, “Wait, this is interesting. Let’s make it happen!” Then we met Carolyn through Kara Nortman, another GSB alum. Carolyn was already working on the same concept. We founder-dated for several months.

Explain “founder-dating.” We wanted to make sure we could mesh well. It’s really important. You’re starting a long-term relationship. At times you will be very raw, making really

Photograph by Brad Torchia



hard decisions together. You will have to fight with each other respectfully. So we did a lot of lunches and dinners and talked about our visions for the business and what we thought our roles would be. We had frank conversations around equity and responsibility.

What is the best advice you've ever received? My grandmother was a Holocaust survivor. She taught me to never give up, never accept "no." You do whatever it takes to get a "yes." You may have to ask it another way or you may have to ask 57 other people.

How did that help her? She was in labor camps in Uzbekistan. She finagled her way long enough to survive through the war. She

and her sisters were working in the fields. Then she was offered a job in the kitchen. So she worked harder and peeled more potatoes than anyone. She convinced them to bring in her sisters by saying that they would work as hard as her.

What was your first paying job? I started babysitting when I was 13. I made \$5 an hour.

How has that first job shaped the professional you are today? It was about taking care of other people. It felt like a tremendous responsibility.

How do you handle that responsibility now, knowing something could go wrong on a ride? We take very seriously the trust that

families have put in us and we try to be as authentic to our brand as possible. It's about taking care of your family.

What's the most important innovation in the past decade and how has it helped you build your business? The smartphone. You come into our app, you tell us about your kids or riders, their age and gender, where we are driving and any notes about those locations. You can book rides the day before or book for a whole school year; set it and forget it. **▲**

Joanna McFarland received an MBA from Stanford GSB in 2005.

COMMUNICATION

What Is Your Brand's "Hero Story"?

An engaging narrative can sell products and clarify corporate strategy.

BY CLIFTON B. PARKER

Storytelling is a great tool for businesses seeking to connect with their customers and employees, a Stanford expert says.

Some stories in particular — signature stories — are extraordinarily powerful in shaping a company's brand, culture, and future. A strong one can transform customers' experiences, re-envision products and services, and spark new business opportunities.

Such inspiring, clarifying narratives help people relate to a company and typically include "heroes." They may be even more important than many people realize, contributing to a company's overall strategic planning, and not just advertising.

Marketing professor Jennifer Aaker of Stanford GSB has co-written a paper with her father, David Aaker, on the power of storytelling to advance a company's brand.

"The development of signature stories can be a vehicle to understand what a brand or organization should stand for at its core," writes Jennifer Aaker in an article published in the May 2016 edition of *California Management Review*. "Signature stories get beyond functional benefits by providing a perspective in which other richer concepts can have a voice."

Examples of signature stories include a young John Nordstrom agreeing to refund a customer's two "well-worn" snow tires — he later went on to build the Nordstrom company on such a "customer first" policy, according to the paper. Another was when the Molson Canadian Beer Company showed how it shares a passion for hockey with its customers by building a hockey rink in a remote part of the Canadian Rockies and flying in customers for a game there.

Then there is L.L. Bean, who in 1912 launched a boot company only to

discover that a stitching problem in the first 100 boots caused them to leak. His response? He refunded all his customers, though it almost bankrupted him.

Signature stories, she says, may be stand-alone stories like those of Nordstrom, Molson, and L.L. Bean that have a single, complete narrative. Or they may consist of several stories based on similar messages and themes. Either way, they can inspire both customers and employees.

Beyond their clear communication and marketing value, such stories can drive a company's brand vision and emphasize its organizational values, she says. As a result, the best signature stories actually take on a conceptual role in creating a company's core business strategies.

POWER OF STORIES

Stories and storytelling are hot topics in marketing communication today, says David Aaker, co-author of the paper, professor emeritus of business at the University of California, Berkeley, alumnus of Stanford GSB, and current vice chairman of a branding consulting business.

"There are many studies in psychology and elsewhere that document that facts are much more likely to be remembered if they are part of a story," he says.

The power of stories has been demonstrated throughout the ages, he added. Consider *Aesop's Fables* from the ancient world, or the impact of *Uncle Tom's Cabin*, the 19th-century novel that arguably affected the outcome of the Civil War.

Stories are persuasive, studies show, because they can change attitudes and even counter arguments. In fact, stories may beat

"facts" alone. The scholars cite research showing that signature stories have more impact with customers than simply listing and highlighting "features" or facts about a particular product or service.

LEVERAGING STORIES

Looking for "story heroes" is the first step to finding a signature story, the researchers write. Stretching one's imagination a bit, these heroes may be discovered in customers, programs, suppliers, employees, the founder, business strategies, and even the actual offering (product or service).

But coming up with compelling signature stories is only part of the strategy, Jennifer Aaker says. The challenge is to efficiently leverage them on behalf of a company's brand vision, growth goals, customer relationships, and business strategies.

Internally, she says, executives and employees should communicate these stories in their activities, whether at workshops or when dealing with partners, for example.

Externally, the challenge is greater, according to David Aaker. A concerted program must connect stories with target audiences. This can involve articles, books, blogs, websites, media appearances, interviews, public relations projects, and advertising.

Increasingly, he notes, social media play a highly valuable role by circulating signature stories online and getting customers and supporters to spread those stories and their messages to friends and contacts — a multiplier effect, of sorts.

But when many signature stories exist, company spokespeople may not immediately understand which one works best, whether for a speech, advertising campaign, or commercial, Jennifer Aaker says.

To solve this, the coauthors recommend that firms use a "digital story bank" that is well structured and easy to use in categorizing different signature stories.

"When good, effective stories become part of an active library, they do not have to be rediscovered again and again," David Aaker says. ▲

Jennifer Aaker is the General Atlantic Partners Professor of Marketing at Stanford GSB.





POWER'S PITFALLS Leaders often ignore perspectives beyond their own.

INFLUENCE

Power: Handle With Care

**A scholar discusses how
to manage your influence.**

BY SHANA LYNCH

If life focuses on the pursuit of happiness, work focuses on the pursuit of power. We angle for those promotions, negotiate for raises, or eye the corner office.

But success extends beyond pursuing power — we must also learn how to manage it, says Stanford GSB professor Brian Lowery.

“You have to be careful with power,” he says. “Think of it as fire. It’s useful, but it’s also dangerous.”

As part of a Stanford Executive Program course, he describes different sources of power, simple ways people can obtain more of it, and the pitfalls of mismanaging it.



SOURCES OF POWER

Society naturally orders into hierarchy, Lowery says. Some is pre-established: We know from a business organizational chart who's in charge. But hierarchy also develops quickly among complete strangers. How does one person in a group of strangers influence others? Lowery cites six sources of power:

- **Reward** We give people what they want.
- **Coercion** We use fear to get people to do what we want them to do.
- **Information** We earn power when we know something others don't.

- **Legitimate** In formal legitimate power, we have power because we're the CEO, for example, and our subordinates do what we tell them to do. On the informal side, consider how children have power over their parents because responsible parents must feed and take care of them.
- **Expert** If we are the only engineer in a new organization, for example, we wield a lot of power.
- **Referent** We gain power through fame, status, and charisma — people like us and want to follow us.

Reward and coercion are sometimes inefficient uses of power, Lowery notes. Law enforcement officers coerce people by threatening jail, but they can only enforce that power through surveillance. That can be time-consuming and costly. And reward can backfire if goals aren't aligned. If you offer more money to an engineer to encourage her to code faster, for example, you may get more code, but it may be worse quality. Her goal — to make more money — conflicts with your goal — to have more high-quality code.

INCREASING YOUR POWER

An easy way to increase the likelihood that people will perceive you as powerful is through dominance moves:

- Look large. When someone seems large or imposing, they seem more powerful. Take up more physical space.
- Gaze directly at others, especially while talking. Avoid tilting your head.
- Use strong hand gestures.
- Furrow your brows.
- Interrupt others.
- When something goes wrong, react with anger rather than sadness. Anger is seen as the more powerful emotion.
- Speak loudly.
- Reduce interpersonal distance. Walking into someone's personal space is considered a high-power move.
- Physically connect with lower-powered people in an appropriate way. Asymmetrical contact — the CEO patting you on the back, for instance — seems friendly and inviting, as well as powerful. This doesn't work in reverse, however.

“We gain power through fame, status, and charisma.”

MANAGING POWER

Power doesn't always have a positive effect, Lowery says.

On the one hand, the powerful feel action-oriented, are less inhibited, and have heightened senses of optimism and control. But they're also more likely to see people as tools and to ignore perspectives beyond their own.

“When you put these together, you can get inappropriate behaviors as a function of power,” he says. The powerful might rely on their own sense of morality when making a decision, but if they're already less inhibited and more inclined to think optimistically, they run the risk of doing something illegal or dangerous, hurt negotiations, or harm their reputations.

“What I would strongly suggest is, as your power grows, you have people to help you check your own behavior,” Lowery says. “Don't rely on yourself as a good person to check your behavior, because you could end up missing what's going on.” ▲

Brian Lowery is the Walter Kenneth Kilpatrick Professor of Organizational Behavior at Stanford GSB.

PERSONALITY

A Professor Who Researched the Psychology of Music Finds You Are What You Listen To

Personality — above all — predicts our musical preferences.

BY KATHERINE CONRAD

Composers have long known music's power to soothe, energize, even provoke. Researchers, too, have observed a connection between music and mood. But which came first? Did a particular song make the listener feel better? Or does the listener feel better because he or she has a particular personality that prefers a particular kind of music?

Several years of research backed by two extensive studies involving thousands of participants convinced an international team of music psychologists that personality plays a much bigger part in musical preferences than anyone had ever imagined. Bigger even than age, gender, culture, or education.

"It turns out that personality is a better predictor of what kind of music you want to listen to," says Michal Kosinski, assistant professor of organizational behavior at Stanford GSB and a member of the team. "Demographics and socioeconomic play a part, but when you look under the hood, it's personality."

The results open the way to understanding the connection between people, their personalities, and the music they prefer. And it has implications for both the music industry, including streaming platforms such as Pandora and Spotify, and the fields of musical therapy and health care. Data already shows that music before, during, and after surgery aids patient recovery rates.

"By studying the links between musical taste and personality, we can improve our understanding of how to use music to make people happier and healthier," Kosinski says.

Michal Kosinski is an assistant professor of organizational behavior at Stanford GSB.

Illustration by Jorge Colombo



REDEFINING MUSICAL GENRES

Before the team that included lead author and music psychologist David Greenberg of Cambridge University, Daniel Levitin of McGill University, Jason Rentfrow at Cambridge University, and Kosinski could make those connections, however, they had to come up with a practical way of describing musical likes and dislikes.

Music psychology has long been dogged by the inability to classify music in a clear and meaningful way. Both scientists and listeners use genres to classify music, but usually the boundaries of those genres are rather hazy. Take jazz: A jazz lover could be thinking of moody blues, brassy Dixieland, or avant-garde Coltrane.

“Genres come not from scientific theory but from the ad hoc and idiosyncratic labels that record companies attach to music for marketing and publicity purposes,” says Levitin, author of the best-selling book *This Is Your Brain on Music*.

In addition, the choice of artists and genres depends heavily on people’s social and cultural backgrounds. Age, social class, and even geography play a part in determining whether a listener likes classical music because it’s prestigious or Chet Baker because he’s edgy. Neither is judging the music on its merits, but rather by the stereotype it symbolizes.

Greenberg, a musician, scientist, and clinician at Cambridge and City University of New York, noted that genre labels can serve a purpose by signaling a type of music, but they are far too generalized for research. “We’re trying to transcend

the genres,” he explains, “and move in a direction that points to the characteristics of music that drive people’s preference and emotional reactions.”

The scientists developed a common language to discern the link between melody and mood. The team asked 76 “judges” with no formal musical training to rate over 100 little-known musical samples from 26 different genres. A statistical analysis of the judges’ opinions revealed that the differences among this diverse set of musical samples could be reduced to three main dimensions: arousal, valence, and depth. Take Joni Mitchell’s “Blue” as an example. The song is considered low on arousal with its slow tempo and soft vocals, it has a negative valence because of its sad lyrics, and it rates high on depth because of the complex emotion conveyed by the harmony and Mitchell’s expressiveness.

Suddenly the playing field is leveled because a song identified as “intense” is not likely also to be described as “mellow,” just as a simple tune such as “Happy Birthday” is not likely to be called intellectually challenging, and an uplifting, marching tempo is not also a slow, mournful funeral dirge.

“The resulting musical spectrum provides the scientists with a common language to describe differences in musical style and musical preference,” Kosinski notes. “We can go beyond the superficial differences between the genres and their blurry boundaries.”

Using these tools, the entire Western world’s songbook can be mapped onto three dimensions. Forget rock, country, and jazz; try energy/intensity, mood/emotion, and complexity/sophistication. All at once it becomes easier to understand the similarities and differences between songs. One can also use these dimensions to study the link between musical preferences and personality.

WHAT IS YOUR MUSIC PERSONALITY?

Turning to Facebook, the researchers recruited 9,500 participants to rate their personalities and musical preferences. The group listened to 50 unfamiliar musical excerpts representing different levels of arousal, valence, and depth and rated their preferences. They also took a standard personality test. The results revealed that neurotic individuals preferred music with negative emotions and intensity; open-

minded and liberal people liked complex melodies; while those who identified as agreeable and extroverted liked songs with positive emotions.

Kosinski, who earned his PhD in psychology from the University of Cambridge in 2014 and then spent a year as a postdoctoral scholar in Stanford’s Computer Science Department, was surprised to find such a clear relationship between personality types and this spectrum of musical preference.

According to the team’s paper, “The Song Is You: Preferences for Musical Attribute Dimensions Reflect Personality,” today’s technology makes it easy to track what people listen to and how it affects their emotional state — through headphones that personalize playlists, earbuds that record physiological metrics, and apps that track location and mood. If researchers can connect music to mood, linking musical characteristics to everyday behavior is next.

“Our musical taste is a sonic mirror,” Greenberg says. “Through the music, we can better understand who we are and what we truly feel and believe. As a musician, I see how vast the powers of music really are and, unfortunately, many people do not use music to its full potential.”

So should we abandon current music genres and describe our preferences in terms of arousal, valence, and depth? Kosinski doesn’t believe music will ever be grouped that way by record labels or listeners. The new spectrum, however, could be tremendously useful for scientists and music platforms such as Spotify and Pandora. It also makes much more sense, he notes, than defining anything written by composers Rodgers and Hammerstein as a “soundtrack” when the genre covers everything from the joyous “Do-Re-Mi” in *The Sound of Music* to the mournful “Pore Jud Is Daid” in *Oklahoma!*

Want to learn more about your musical personality? Take the quiz at www.musicaluniverse.org. ▲

“Through music, we can better understand who we are and what we truly feel and believe.”

Organizations



**“Coming out
is not
a moment
in time,**

it is a process.”

Norma Blair

— J.D. Schramm PAGE 36

MOTIVATION

What Every Boss Should Know

Skilled leaders make employees happier and more productive.

BY BETH RIMBEY AND STEVE HAWK

Most leadership advice is based on anecdotal observation and basic common sense. Stanford GSB professor Kathryn Shaw tried a different tack: data-driven analysis.

Through research done in collaboration with a very large, undisclosed technology-based company that has a penchant for collecting and analyzing data, Shaw found that employees who work under good bosses were more productive. “There are bad bosses out there,” she says, “but what’s not talked about as much is that there are also good bosses.”

Shaw, along with fellow Stanford GSB professor Edward Lazear and Harvard Business School’s Christopher Stanton, published a 2015 paper titled “The Value of Bosses,” in which they gathered data

Kathryn Shaw is the Ernest C. Arbuckle Professor of Economics at Stanford GSB.

Photograph by Gabriela Hasbun



KATHRYN SHAW
A skilled manager helps
employees achieve
their longterm goals.

“One way or another, a good boss teaches something that lingers.”

from the tech company in an attempt to see whether they could show that bosses matter and, if so, how much. As part of their research, the authors asked company employees and managers, “What are the traits of a good boss?” They found that bosses matter substantially.

Shaw pursued this same topic separately in a Stanford GSB case study of the Royal Bank of Canada (RBC), which had developed an in-house analysis as part of a drive to develop people analytics. In addition, she examined similar research from Google, which also tried to quantify the impact of good (and bad) managers.

Shaw recently sat down with *Stanford Business* to discuss her findings and to share three keys to effective employee management.

TRACK RECORDS MATTER

At the unnamed technology-focused service company, workers’ performance was gauged by the number of customers they served per hour. Shaw and her coauthors found “an enormous range” of productivity levels, depending on the quality of a worker’s boss. “If you have a change in bosses and you get someone who has a history of being a good boss, you become more engaged in your work and your productivity goes up,” she says.

Shaw notes that RBC has looked at its “employee engagement” data, which is based on questions like, “Do you feel motivated on your job? Do you identify with your company?” Better managers, RBC found, have more engaged employees.

As expected, employees who were motivated and who more strongly identified with their company were also higher performers. Which led to the next logical question: “What are their bosses doing differently?”

THREE THINGS GOOD BOSSES DO

The first thing an effective manager does is to vividly describe the company’s vision and mission and to explain in detail how each employee fits into that vision, Shaw says.

“The next thing they do is drive results,” she says. To ensure that individuals (and teams) are productive and have a sense that their contributions are valued, attentive bosses set aside time to coach, guide, and motivate.

The third and often overlooked aspect of strong people leadership is to help employees achieve their personal career goals. Shaw says it’s “incredibly motivating” when an employee’s long-term career vision and values are aligned with those of the organization. “A good boss will share that vision with them and give them guidance and feedback to help them along the path.”

A WORLD WITHOUT MANAGERS?

Not long after Google was founded, its army of self-driven engineers bristled at the idea of even having bosses, so the company began to cut back on the number of managers. But, Shaw says, that turned out to be a burden for company leaders, who found themselves besieged by rank-and-file employees asking them to perform routine tasks. “They found out they really needed low-level managers,” she says. “So they needed to find out, ‘What makes a good manager?’”

Because Google is used to making decisions based almost exclusively on data analysis, it applied the same process in trying to identify the traits that make up a good boss. The characteristics they identified largely aligned with the traits that Shaw found among the best bosses at RBC. “You pay attention to your employees,” she says. “You give them a vision. You motivate them. And you set out career goals for them.”

AN EFFECTIVE BOSS HAS LINGERING IMPACT

Shaw also found that high performing workers who have been trained well by a good boss continue being productive even if they start working for someone who’s measurably less effective.

It turns out that a willingness to serve as a teacher is one of a good boss’s most important characteristics, because once a worker has learned something, she carries it into her future work. “The lesson could be how to do your job correctly, or it could be something like how to be motivated about your career goals,” Shaw says. “One way or another, a good boss teaches something that lingers.” ▲

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MARKETING

If Relevant to Searches, Online Ads Work

Two scholars show how native advertising can attract more business.

**BY HARIKESH S. NAIR
AND NAVDEEP S. SAHNI**

Does knowing that a search listing is a paid ad make consumers evaluate a restaurant on a site like Yelp or Zomato more favorably or less favorably? The answer might surprise you.

Prevailing wisdom suggests consumers may not trust sponsored content, so revealing that content is sponsored may be detrimental to advertisers and media platforms. But our new research finds that making ads “native” — having them appear in the same format as regular listings but clearly identifiable as an ad — actually attracts more business.

This finding is quite relevant to consumers, advertisers, and media platforms: Advertising, it turns out, helps all three.

To gauge the effect of native advertising, we had to assure that consumers were

responding merely to knowing a firm was advertising, as opposed to the quality of the ad. So we designed a field experiment in collaboration with Zomato, a site that allows consumers to search on their phones for restaurants. The experiment involved 622 advertising restaurants and 265,975 people over about six weeks.

Our consumers were allocated randomly. Some saw a restaurant listing with no indication it was an ad; others saw the identical listing indicating it was an ad. We found that simply disclosing to a consumer that a listing was paid for by the restaurant increased calls to the restaurant by 77% relative to not disclosing it. These results suggest that ad disclosure in fact increases the restaurant’s appeal.

We then tested whether the effect of disclosure is even higher for users who

are more uncertain about the restaurants, maybe because they are visiting an unfamiliar city. We found that these users visited restaurants’ pages at a significantly higher rate when advertising was disclosed. We also saw that restaurants rated fewer times on the platform — presumably, those about which consumers were even more unfamiliar — benefited more from ad disclosure.

Separately, we found that restaurants that have more appeal to consumers (those with better ratings) and that are newer (presumably ones about which consumers are more uncertain) are more likely to advertise on Zomato. This suggests that restaurants seem to be using advertising to inform consumers of their appeal.

Taken together, these results suggest that markets may work in a way consistent with “signaling theory,” which contends that advertising can “signal quality” to consumers. This theory posits that the very fact that a new firm spends significant amounts on advertising can signal to consumers that it is of high quality. And indeed, advertising seems to play a positive role in this market, helping consumers find what they were looking for and benefiting the advertising restaurant and the search platform.

Note that in our study, the ads were relevant to the consumer’s search, and therefore useful, not annoyingly irrelevant and disruptive. These results also build on previous research demonstrating the effectiveness of search and email advertising.

The implication of our findings for advertisers is that they will benefit from clearly disclosing ads on search platforms, because doing so serves to signal their quality. Further, even if consumers are aware of their products, such firms should continue to advertise, because it affects the quality perceptions of consumers. The implication for media platforms is that they should prominently disclose paid ads, because consumers respond positively to advertisements when they are useful and not annoying. ▲

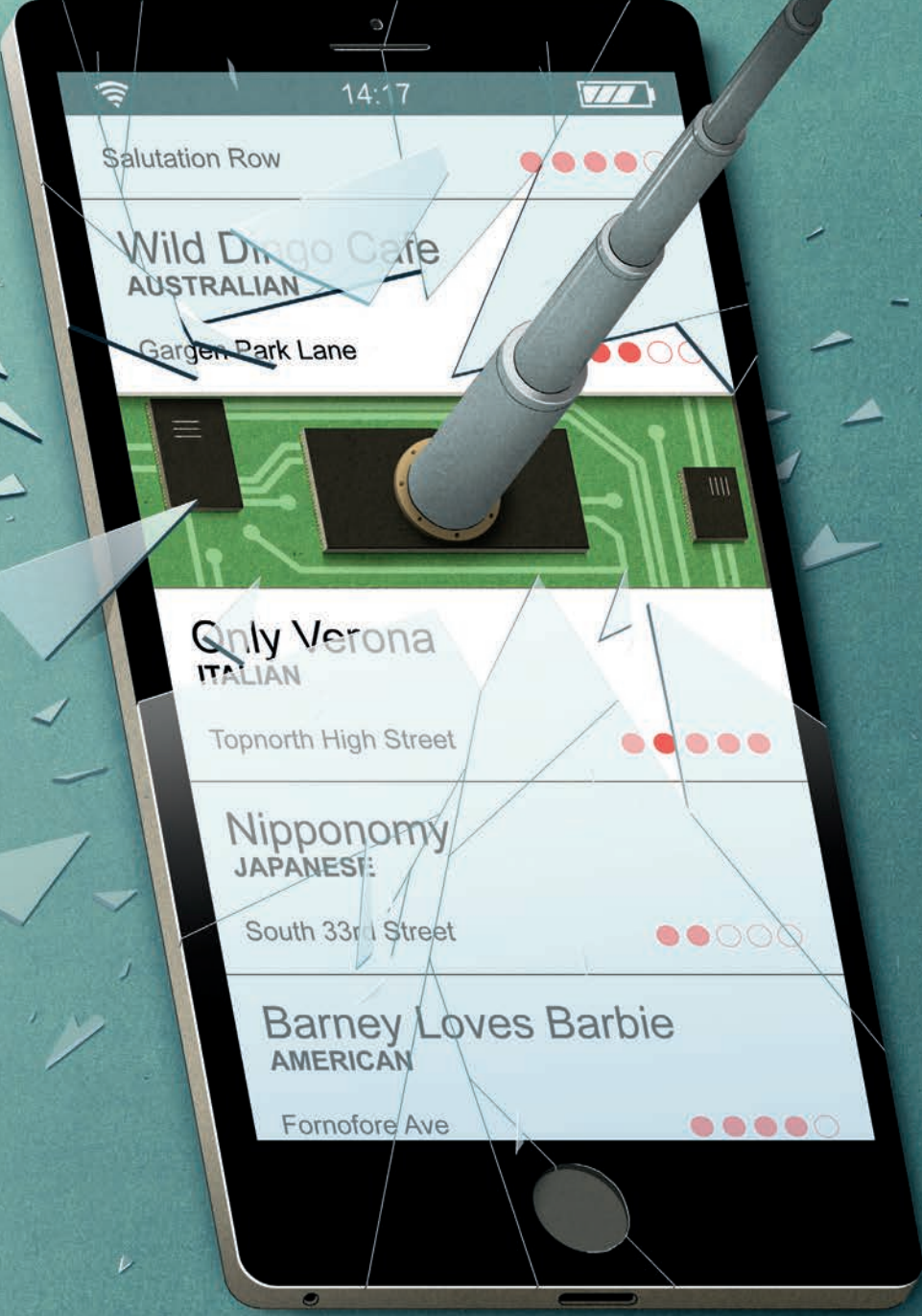
Harikesh S. Nair is a professor of marketing and Navdeep S. Sahni is an assistant professor of marketing at Stanford GSB.

Bonjour Tyler
FRENCH AMERICAN

West 54th Ave

Ad

●●●●○



14:17

Salutation Row ●●●●○

Wild Diego Cafe
AUSTRALIAN

Gargen Park Lane ●●●○○

Only Verona
ITALIAN

Topnorth High Street ●●●●●

Nipponomy
JAPANESE

South 33rd Street ●●○○○

Barney Loves Barbie
AMERICAN

Fornofore Ave ●●●●○

EXPOSURE

Navigating the Risks of the Cannabis Business

An entrepreneur ventures into unexplored territory.

BY ERIKA BROWN EKIEL

In 2014, Hadley Ford was looking for a new job. He logged on to LinkedIn for the first time in years and saw thousands of pending invitations. He accepted them all. One of those invitations was from Randy Maslow, an old friend. Maslow called Ford a few minutes later and pitched him a radical idea for a new business that had the potential for enormous gains but also enormous risk: They were going to legitimize the business of marijuana.

Today, Ford is a managing director and CEO of iAnthus Capital Holdings, a publicly traded provider of startup capital and advice for cannabis businesses.

It was a radical departure from Ford's earlier career. Previously, he had followed the well-worn path for people with business ambitions: He earned a BS in business from Boston University, where he was valedictorian, and was an Arjay Miller Scholar at Stanford GSB. He worked as an investment banker at First Boston, Bank of America, and Goldman Sachs, then founded and led a company called ProCure, a provider of proton therapy as a treatment for cancer, which he left in 2013.

Ford, who lives in New York City, talked to *Stanford Business* about what drew him to this sometimes seedy business and how he's working to make it as socially acceptable — and profitable — as selling beer.

Why cannabis? I knew Randy from my days at Goldman. We invested in his company, XO Communications, and took it public. After the public offering, he retired, set up a virtual currency company, then retired again. He called me in early 2014

and said, "I found the next big thing." He'd had a very successful career in tech so I expected to hear about ones and zeroes. He said, "Cannabis."

What was your reaction? I didn't see that it could scale nationally. Cannabis is still illegal in most of the U.S. That means you can't trademark or copyright your product or distribute across state lines. You might have a few storefronts, but you can't easily build a really large, national business.

How did he convince you to join him? He started off by saying this is a \$50 billion market moving from black to white. He said, "There has to be a national opportunity. Let's figure it out." We went to a bunch of conferences and met with many operators. There are thousands of entrepreneurs who want to grow, process, or sell cannabis but don't have access to financing and need advice on how to run a company. We saw an opportunity for a merchant bank.

That's the logical part — the how. But why are you really doing this? There must be other ways to make money. I am a child of the late '60s and early '70s. For me, it's about "power to the people." You don't want the Man telling you what to do. Why should anyone tell anyone else that they can't grow it and use it and do what they want with it? I'm not a user, but I do have a passion around individual rights and helping people build companies.

Is that a coincidence — or were your parents hippies? A strong entrepreneurial

spirit runs in my family. My parents were driven A-types but also very libertarian. They were progressive socially but conservative in a "stay out of my bedroom and kitchen" kind of way.

Can you be successful in this business if you don't smoke? Do you have to partake to be trusted? You do get guys who've been growing plants for decades. You're not considered authentic to those people unless you worship at the altar of the cannabis plant. There are also entrepreneurs who just want to build businesses. I'm comfortable in either world. The common denominator is they all need capital.

Once you and Randy decided to do this, how did you get started? We thought we could raise a couple hundred million and roll up our sleeves. But we learned that for the same reason Citibank wasn't providing loans to build a greenhouse, we weren't going to easily raise capital for a new fund. So we went to Canada, where issuers can sell securities related to cannabis. There are a dozen public companies in Canada that touch the plant, as well as banks, traders, and research reports. We structured a public vehicle that raises money in Canada and uses the money to fund businesses in the U.S.

Have you made any investments yet? We have invested in three states, and we are in term sheet discussions with businesses in four more states.

How has the transition been for you? Do you find people from your banking and health care history treating you differently now? In my last business I raised \$800 million off my Rolodex. A year and a half ago I started this company as the same guy, with the same Rolodex, and I've raised \$9 million.

How do people react at cocktail parties when you tell them what you do? It's a much harder cognitive dissonance than you might imagine. I had a couple of friends who said, "You are a fool. You will end up in prison." There is a lot of caution, people are leery, but I haven't been shunned. I've always been very entrepreneurial; people probably always thought I was crazy to take those risks.

Do I sense a little pride from being an outsider? Nothing ever gets created if you are just copying.

Photograph by Cole Wilson

HADLEY FORD
"Nothing ever
gets created if you
are just copying."



What are the entrepreneurs like in this category? Are they different from what people might expect? You find all sorts. People you wouldn't want to cut your lawn, as well as sophisticated and thoughtful entrepreneurs. We look for startup situations where someone has been awarded a license. We look for a track record or background of success in running a business. Someone who ran a franchise or a restaurant, for example.

How do you do your due diligence? We have an experienced staff that can handle the financial end of things and we have cannabis advisors and contacts who can vet the cannabis operations. There are little things we look for as well, such as how does the owner respond to term sheets? How

do they respond to tasks in the diligence process? How long does it take for requests to get done? We spend a lot of time together to make sure there is a comfortable feel. You can tell a lot just by looking at the plants. Do they look healthy or sick? You can also check online and see the reviews. *Leafly.com* is like Zagat for weed stores.

How do you find talented people to help these startups? Are there corporate lawyers and accountants you can turn to for advice? We have some cannabis-experienced accountants and law firms, but it's still early. The jury is still out: Are we too far on the edge? Is the wave going to crash on top of us? Sometimes it's not great to be first.

What does the future look like — in one, five, and 10 years from now? One year? A lot like today, but maybe with cannabis legal in some new states. We will see a lot more investing by smaller institutions and regional banks providing credit, though probably not the big banks yet. In 10 years it will look more like the alcohol business.

What is the best business book you have read? *Good to Great* by Jim Collins. People and focused execution matter more than anything else. ▲

Hadley Ford received his MBA from Stanford GSB in 1991.

TRAINING

The Leadership Industry Has Failed

There's plenty of bad advice out there for corporate managers.

BY EILENE ZIMMERMAN



Corporate training in the U.S. is a \$70 billion market, and 35% of that is spent on management and leadership training. Over the last several decades, the industry has provided a recipe for how to be a successful corporate leader: Be trustworthy and authentic, serve others (particularly those who work for and with you), be modest, and exhibit empathetic understanding and emotional intelligence.

But here's the problem, says Stanford GSB professor Jeffrey Pfeffer: None of that is working. Despite the tens of billions of dollars being poured into management training books, workshops, conferences, and sessions, the workplace today is as dysfunctional as ever. Organizations are filled with disengaged, dissatisfied employees who don't trust their leaders, and those leaders, in turn, face shortened job tenures, career derailments, and dismissals. Pfeffer confronts this paradox in his new book, *Leadership BS: Fixing Workplaces and Careers One Truth at a Time*.

"The leadership industry has failed," he says. "There is little evidence that any of these recommendations have had a positive impact." Pfeffer's book points to the ways in which those prescriptions have actually been problematic for leaders and proved to be invalid.

Many of them come from the inspirational leadership success stories we love. As a culture, we're fascinated by the legends — think Richard Branson, Steve Jobs, and Mark Zuckerberg. But those are just stories, says Pfeffer, and nothing more. People generally want to hear only good things about their leaders, so they tend to

ignore contradictory evidence and failures. "There's all this mythologizing that besets leadership, as people try to generalize and learn from exceptional cases," he says. "But that has resulted in this enormous disconnect between what actually makes individuals successful and what we think makes them successful."

In *Leadership BS*, Pfeffer argues that the leadership industry has fallen short partly because its recommendations are based on an ideal world rather than the real world. Among the common prescriptions for better leadership, for example, is that leaders need to be truthful, when in reality, the ability to lie can be very useful for getting ahead. Skill at manipulation, writes Pfeffer, "is a foundation of social power." In fact, he says, there is a reciprocal relationship between power and lying: The powerful deceive more often, and the ability to deceive effectively creates social power.

The same is true for authenticity, which Pfeffer regards as a useless leadership development prescription. To be authentic means to be in touch with and express one's true feelings, and although that may sound good, he says, it's actually counterproductive for those at the top. "Leaders don't need to be true to themselves; in fact, being authentic is the opposite of what they should do."

It's far more important for leaders to understand what a particular situation requires and to act in an appropriate way, Pfeffer contends. "Leaders need to be true to what the situation demands and what the people around them want and need," he says. "Each of us plays a number of different roles in our lives, and people behave and think differently in each of those roles, so demanding authenticity doesn't make sense."

In the end, says Pfeffer, we would all be better off accepting that our leaders are generally not truthful, authentic, modest, or trustworthy — which is largely the opposite of the message we get from motivational leadership stories. "All those stories and the inspiration we get from them change nothing," he says. "The fundamental problem with this industry is the disconnect between what we say we want from our leaders and how they actually manage organizations."

Pfeffer says the quality of America's corporate leaders won't change until we start evaluating them and their leadership-development practices with a more clinical eye, using useful, objective metrics, rather than simply handing out questionnaires at the end of leadership-development activities and asking participants if they enjoyed it. Without data that provides accurate assessments of leaders, it's impossible to make meaningful improvements. And until leaders are measured by what they actually have or haven't accomplished — and are held accountable for improving both their own behavior and workplace conditions — nothing is likely to change, says Pfeffer.

"The leadership industry gives people what they want," he says. "We want nice stories, so that's what we get." ▲

Jeffrey Pfeffer is the Thomas D. Dee II Professor of Organizational Behavior at Stanford GSB. His book, *Leadership BS: Fixing Workplaces and Careers One Truth at a Time*, was published by Harper Business in 2015.

WHY AUTHENTICITY IS OVERRATED

One look at the numbers of books and seminars about "authentic" leadership and it's clear that the trait is currently in vogue. Yet Stanford GSB professor Jeffrey Pfeffer says the quest for authenticity is overrated and often the opposite of what's needed to make corporate leaders effective. Instead, he says, executives are far better off being "usefully inauthentic."

"One of the most important leadership skills is the ability to put on a show," Pfeffer argues, "to act in a way that inspires confidence and garners support — even if the person doing the performance does not actually feel confident or powerful." Some of the world's most successful leaders, Pfeffer contends, make and remake themselves all the time, adjusting their

behaviors to fit the situations they face.

Pfeffer notes that Stanford GSB even offers a course called *Acting with Power*, taught by Deborah Gruenfeld, the Joseph McDonald Professor of Organizational Behavior. (See related story, page 12.) The class draws on the craft of acting, as well as the teachings of psychology, to help students learn to "play"

authoritative roles effectively.

This is an essential skill, says Pfeffer. Most successful corporate leaders have mastered the art of being inauthentic. They are effective regardless of their belief systems and can adapt to the environments they confront, he says. "They don't get stuck in their temporarily authentic selves."

— EILENE ZIMMERMAN

TRANSPARENCY

Should LGBTQ Leaders Come Out at Work?

Tips for making the move toward openness.

BY KATHERINE CONRAD

More than half of all people who are gay do not disclose their sexual identity at work, says the Human Rights Campaign, an advocacy group for the LGBTQ community.

Clearly, coming out still carries risk — even in 2016 — but so does staying in the closet, says J.D. Schramm, a lecturer at Stanford GSB.

Revealing one's sexual identity on the job requires careful consideration, Schramm notes. But he says through his own experiences and as an observer that living life openly and honestly — what he calls “leading out loud” — has served him not only professionally, but also personally. He shared some of his insights in a recent webinar about communication strategies for LGBTQ leaders.

“Every LGBTQ person has one thing in common with every other LGBTQ person, and that is the journey that we've all gone on in order to be ready to communicate who we are,” he says. “Coming out is not a moment in time, it is a process. But it's still a personal choice. I think it's best, but it's not my decision to make for others.”

Schramm, who taught an LGBT Executive Leadership Program this summer at Stanford GSB, says despite all the progress in gay rights issues, the odds are still stacked against the community. But as gay leaders take control of their own stories, the climate has steadily improved. He points to Raymond Braun, who received both a bachelor's and master's from Stanford University, as an example. As an employee at Google, Braun originated YouTube's award-winning LGBTQ strategy, which served as inspiration for Google's broader

diversity marketing efforts. *Forbes* named him to its 30 Under 30 All-Stars list in 2016, and *Out* magazine named him one of the 100 most influential LGBTQ people in the world. Today Braun runs his own company and works as a broadcast and social media correspondent on social justice issues.

LGBTQ leaders have several options for how they control their stories: They can be artificial or authentic, private or transparent. For instance, someone might choose to be private at work but out among friends. Another person might behave very provocatively but lack authenticity — Schramm points to Liberace as an example.

“You can lead from any box,” Schramm says. “But you can lead stronger if you lead out loud.”

For those considering coming out at work, Schramm offers a few suggestions. First, before you even join a company, consider how it works with its LGBTQ employees. Some companies protect LGBTQ status and actively recruit candidates. A company's transparency during the interview process can help prospective employees understand how open a culture is and tap into a network of gay leaders to navigate a new job effectively.

If you're ready to come out in your current job, Schramm offers these suggestions:

- Consider where you live, where you work, and your industry. Some parts of the country or industries might not be as welcoming as others, and you should weigh this in your decision.
- Privately share with a smaller group of key colleagues to gauge reactions.

- Look for your best allies in the straight world, articulate your goals, and let them mentor you.
- Consider more indirect ways to come out, such as featuring your leadership roles or affinity with LGBTQ groups on your LinkedIn profile or resume.
- Bring your significant other to a work event where spouses and partners are invited.
- If you have a bio on the company website, add a line about your spouse and family.
- If single, find simple ways to share stories about your life. For example, “When my ex-boyfriend and I went to London ...” “When I was a leader in the undergrad gay pride group ...” These sorts of conversations allow a person to come out without “coming out” being the focus.
- Seek out gay leaders in senior management who have a transparent presence. Having somebody who has blazed the trail can be a huge asset.

Schramm has faced this decision himself. When he arrived at Stanford in 2007 as a lecturer, he says he chose a simple but effective way to telegraph who he was when he posted his online bio that referenced his husband, Ken.

Living transparently, Schramm discovered, brings rewards beyond feeling more authentic at work. Two years ago, he and his husband believed they were about to welcome a new baby into the world. A woman in Texas had agreed to allow the couple to adopt her newborn. They flew to the Lone Star State only to learn the mother had changed her mind. Devastated, Schramm's husband blogged about their grief. A couple in California's Central Valley read the story and offered to conceive a baby for Schramm and his husband. Now, they are the proud parents of a baby girl and teenage boy whom they adopted from foster care.

“We couldn't have predicted how people would respond to our blog post,” Schramm says. “Because we were willing to step out and share not only the joys but the setbacks — by leading out loud — it brought our heart's desire in a way far beyond our imagination.” ▲

J.D. Schramm is the MBA Class of 1978 Lecturer in Organizational Behavior at Stanford GSB.



J.D. SCHRAMM
Learning about the
openness of a company's
culture can start
even before you apply
for a job there.



CREATIVITY

Who's the Best Judge of Innovative Ideas?

What circus acts tell us about predicting success.

BY LOUISE LEE

Innovations begin as creative ideas, but having a good idea is not enough. Too often, experts reject creative ideas that later prove to be smash hits: Harry Potter, Star Wars, the graphical user interface, and even the telephone were all initially rejected.

When someone has a new idea, who's in the best position to predict whether it'll be a hit: the creator of the idea or the manager in charge of evaluating the idea? It turns out the answer is "neither," according to research by Justin Berg, an assistant professor at Stanford GSB. He studies "creative forecasting," or the skill of predicting the success of new ideas. Berg's research suggests that even with all their knowledge and experience, managers are

Illustration by Brett Ryder

usually not the best at predicting the success of a new idea, nor is the creator of the idea. Instead, the best judges are peers of the creator, who have spent time generating their own ideas, but not the idea in question. The research by Berg appeared in the July 2016 edition of *Administrative Science Quarterly*.

Berg conducted a large study on creative forecasting in the circus arts industry. He teamed up with James Tanabe, a former creative director for Cirque du Soleil, and Lena Gutschank, a veteran circus artist. In the circus industry, innovation is typically divided into two separate roles: Creators generate ideas for new acts, and managers evaluate whether to include these acts in future shows. So managers act as gatekeepers between creators and the audience, which is similar to how roles are structured in many organizations and industries.

He and his team collected over 150 videos of circus acts from creators around the world. Next, they had 339 circus professionals — including both creators and managers — watch 10 videos and try to predict how successful each video would be with the audience. Specifically, participants forecasted the extent to which the videos would be liked, shared, and financially supported by the audience. The accuracy of these predictions was then tested using a sample of over 13,000 audience members.

Berg found that creators were poor forecasters of their own ideas: They overestimated how well their videos would do with the audience. However, creators were more accurate judges of their peers' videos than managers were. A key to creators' advantage over managers was that creators were able to recognize value in the more novel ideas, or the performances that deviated from conventional circus art. Managers tended to undervalue novel ideas in favor of conventional performances. While some novel ideas did poorly with the audience, some of the most successful videos were highly novel acts. Creators were better than managers at predicting these novel hits.

What made the results especially surprising is that most of the managers were previously creators. "One might think that

if you're a successful creator, you have good taste, and when you get promoted to a manager role, it stays with you," Berg says. "But this research suggests that the creator role may promote good taste, while the manager role may undermine it."

Berg attributes creators' greater accuracy to a key distinction between the roles: Creators focus on idea generation, while managers focus on idea evaluation. Berg explains, "When we generate ideas, we first engage in *divergent thinking*, which involves searching for novel connections or combinations that may be valuable. After we generate possible ideas, we engage in *convergent thinking* as we evaluate the ideas based on our previous knowledge and experience. Since managers evaluate ideas after creators have generated them, they skip divergent thinking and go straight to convergent thinking." In evaluating ideas, "convergent thinking alone is dangerous because you're just relying on the past," says Berg. "What will succeed in the future may not resemble what succeeded in the past. Divergent thinking helps people stay more open-minded about new ways ideas may succeed."

As a follow up to the circus study, Berg tested the effects of this key distinction between roles using a lab experiment. He randomly assigned participants to roles: Creators spent time generating new product ideas, and managers spent time describing criteria for evaluating new product ideas. All participants were then asked to rank a set of four product ideas based on how successful they'd be with consumers. The products had been pretested with consumers to determine a correct ranking, and the best idea was also highly novel. Consistent with the circus study results, creators were significantly more likely than managers to correctly rank the best idea at the top.

Because creators as a group outperform managers in forecasting the success of new ideas, companies, particularly those in creative industries, may want to rethink how they define creator and manager roles. An organization in which creators only create and managers only manage may miss out on the benefits of applying different types of thinking to a task, says Berg. Instead of allowing only managers to evaluate and select ideas, companies could ask creators to weigh in by, for instance, letting them vote

“The creator role may promote good taste, while the manager role may undermine it.”

on their peers' ideas. "Creators have built up this wisdom about others' ideas that is rarely used," says Berg. Likewise, managers could consider incorporating more idea generation into their roles, which may help improve their forecasting accuracy. "We found that hybrids — managers who also have creator duties — are more accurate than pure managers," explains Berg.

But shouldn't people specialize and focus their energies on one area and become extremely competent at it? Specialization is useful when a company needs to accomplish a task in the most efficient and cost-effective way, but for an organization seeking to innovate, specialization isn't always the answer. "When it comes to creative forecasting and staying open-minded to new ideas, it may not be the best strategy to completely separate out creators and managers," says Berg. "Moving away from specialization is a trend in the business world. More people are wearing more hats. For creative forecasting, that's probably a good thing." ▲

Justin Berg is an assistant professor of organizational behavior at Stanford GSB.

ACQUISITIONS

When Good Accounting May Be Bad Business

During acquisitions, financial disclosures can benefit buyers at the target company's expense.

BY LEE SIMMONS

Acquisitions are hard. Corporations don't come with price tags attached, so a would-be buyer has to decide how much to offer. Bid too little and you lose out to a rival. Bid too much and you take a bath on the deal — and likely earn a prompt, derisive slap to your stock price as soon as you announce it.

The main challenge is figuring out how much the target firm is worth. Of course, any business valuation is fraught with uncertainty. But when it comes to acquisitions, that risk is compounded by information asymmetry: The target firm usually knows more about its own market and assets than the would-be buyer does.

That's why suitors pore over the company's financial statements, looking for insights that might help them project future cash flows. "The better the accounting information, the more accurately they can value the company," says Maureen McNichols, an accounting professor at Stanford GSB. "So we wondered, does that let them bid more effectively and ultimately pay less?"

To find out, she and Stephen Stubben of the University of Utah analyzed more than 2,400 deals between 1990 and 2010, measuring stock appreciation for buyers and sellers as an indicator of the profitability for each side. Their study found that when a target firm has high-quality financials, the acquirer benefits — although at the expense of the target's shareholders.

For entrepreneurs dreaming of a lucrative buyout, is good accounting actually bad business?

Maureen McNichols is the Marriner S. Eccles Professor of Public and Private Management at Stanford GSB.

Illustration by Gracia Lam



THE WINNER'S CURSE

In any merger, the combination of two companies is supposed to be worth more than the sum of the parts. That would be true, for instance, if they can share overhead, thus lowering overall cost. The value of such synergies is the total benefit of the deal, to be divided between the two sets of shareholders. How the pie is carved, however, is determined by the deal price.

“The acquiring company should pay no more than the value of the target firm plus the synergies,” McNichols says. The target firm, of course, would accept nothing less than its own stand-alone value, though it usually has a higher reservation price below which it won't sell. Within those limits, there's a range of mutually acceptable prices favoring each side in varying degrees.

The problem is, acquiring firms can only guess where the limits are because they don't know how much the target's assets are really worth. That they often get it wrong and pay too much, at least in the judgment of the stock market, is well documented: The dirty little secret of mergers is that the acquiring company is often likely to lose value after the deal is announced.

“One explanation for that is the ‘winner's curse,’” says Stubben, who received his PhD at Stanford in 2006. When firms compete for an acquisition, each comes up with its own valuation. “The greater the uncertainty, the more variation there will be in bids — some too high, some too low. The average might be spot on, but since the seller takes the highest offer, the winner is the one who most overestimated.”

Good accounting information mitigates that effect. By reducing uncertainty, it lets suitors estimate the target firm's value more precisely and bid closer to its reservation price.

THE DOWNSIDE OF DISCLOSURE

To test their prediction, the researchers had to solve the tricky problem of grading the quality of financial statements. Trying to evaluate each firm's accounting decisions would be impractical, but they realized they could do it empirically, by measuring how well its numbers in one year predict cash flows in subsequent years.

Stubben offers a simple example: “Take an industry that's inherently volatile, where sales vary wildly from one period to the next. Looking only at that, an outside investor would have a hard time guessing what next year's revenue will be.” But the companies themselves have private information; for instance, their sales reps might report that demand is weakening.

Anticipating a decline, Firm A does the proper thing and lowers the book value of its inventory. But Firm B, perhaps loath to take the hit on its income statement, decides not to do a write-down. “Both companies have the same high level of market uncertainty,” Stubben says, “but Firm A's financials will better predict future performance.”

So the researchers devised a two-stage analysis: First, they ran statistical regressions of cash flows on prior accounting data to gauge the quality of the target firms' accounting. Then they looked at stock returns for targets and acquirers at the time the deals were announced and regressed them against accounting quality and a slew of control variables, including market risk and firm characteristics.

The results are striking: From 1990 to 2010, the average stock return for acquirers was slightly negative, while target firms averaged a 23% profit. But the better the accounting data, the better acquirers fared. Comparing the top and bottom deciles,

acquirer returns were 2% higher with good accounting — a difference of \$132 million on average. Target returns were 6% lower.

“We tend to think that good accounting benefits a firm's shareholders,” Stubben says. “This is one setting, though, where it doesn't. In companies facing acquisition, financial reports give away valuable information that the other party can use against them.”

OFFSETTING THE SELLER'S ADVANTAGE

That said, startups would be ill advised to muck up their financials in hopes of a bigger payday, McNichols warns. “Acquisition price isn't everything. To even get to that stage, young companies need financing, and the quality and transparency of their reporting affects their cost of capital, even their ability to borrow and attract investors. So the cost in this case is potentially offset by other benefits of better accounting.”

Much of the variation in accounting quality observed in the sample is industry specific, not a result of managerial discretion. “Some fields just have less informative financials, by the nature of their business,” Stubben says. Examples are pharmaceuticals and high tech, where R&D and intangible assets are all-important but hard to account for.

Does that mean buyers will do better in some industries and sellers in others? “I'd think so,” he says. “Poor accounting quality could well be a factor in some of the overpriced acquisitions you see in Silicon Valley.”

Another good question is why companies acquire firms with uncertain value and low accounting quality, given the dismal track record. Sometimes, McNichols says, managers have their own incentives: “A big takeover raises a CEO's prestige and visibility, whether or not it creates value for shareholders.” And uncertainty might make it easier to sell a board on an optimistic valuation.

But, she adds, “Poor information doesn't necessarily mean it's a bad investment. Early-stage firms or companies with a lot of intangible assets will have lower accounting quality and can still be good companies and good acquisitions for strategic reasons,” she says “You just have to be very careful in valuing them.” ▲

“Financial reports give away valuable information that the other party can use against them.”

World



“China accounts

for a disproportionately
large share of imports refused
entry to the United States.”

— Timothy James McQuade

Norma Blair

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MONEY

Are U.S. Bonds Still a Secure Investment?

A scholar explains why the answer is yes.

BY MATT VILLANO

Earlier this summer, when Great Britain's Brexit referendum to leave the European Union devalued the British pound and briefly crippled stock markets around the world, one investment vehicle remained relatively unscathed: U.S. government bonds.

During a period in which the NASDAQ fell 4% and the Nikkei dropped 8%, U.S. government bond prices rose, suggesting that U.S. bonds and the debt they represent offer a safe haven for institutional investors during times of turmoil. Such an environment keeps bond demand high and yields low, since prices and yields are negatively related.

The market response proved some of the exact points made in a recent paper by finance professor Arvind Krishnamurthy of Stanford GSB.

Arvind Krishnamurthy is the John S. Osterweis Professor of Finance at Stanford GSB.

Photograph by Drew Kelly

The study, “What Makes U.S. Government Bonds Safe Assets?” which appeared in a recent issue of the *American Economic Review*, finds that in times of economic uncertainty, U.S. government bonds are among the safest investments one can make. It seeks to understand why such bonds represent such a significant part of the safe-asset portfolios of institutional investors, central banks, and other nations. And what makes the bonds so bulletproof.

“There’s something very special about our government’s debt,” says Krishnamurthy, who’s been working on this topic for the better part of a decade. His coauthors on the paper are Zhiguo He of the University of Chicago’s Booth School of Business and Konstantin Milbradt of Northwestern University’s Kellogg School of Management. “We’ve learned that what matters for a safe asset is not that it is absolutely safe, but that it is relatively safe in relation to everything else,” Krishnamurthy says.

The more investors snatch up U.S. government bonds, the safer the bonds become.

COUNTERINTUITIVE REALITY

It’s a curious phenomenon. In most nations — especially the smaller economies of Europe — instability breeds panic, which sparks sell-offs that tend to make yields rise. What’s more, here in the United States, government debt has risen substantially relative to GDP over the last 10 years — another situation that, in just about every other case, would precipitate a yield spike.

Researchers note that even during times of worsening economic fundamentals (particularly during the financial crisis of 2007-08), when U.S. government debt normally would be expected to grow due to impending recession and the possibility of a big government bailout, yields on domestic debt have fallen relative to the yields of other debt. The 12-month government bond yield returned 1.13% five years ago and has held relatively steady despite an uptick in government debt and a congressional showdown on approving the debt ceiling last year.

This is because investors keep investing, no matter what. Krishnamurthy theorizes that in times of turmoil, they pick the option that’s least bad. “The reality is that U.S. government bond prices are not failing because everyone is rushing to them,” he explains, describing the trend as a “flight to quality” and referring to U.S. bonds as the safest asset in the world.

“Against the rest of the investment options around the world, safe-asset investors simply have nowhere else to go.”

MODELING GOOD DEBT

The researchers devised a model to highlight this “nowhere else to go” aspect of safe assets and to determine the conditions under which debt is considered “safest” for institutional investors to buy.

Applied to the financial situation in the United States before Brexit — research was conducted in the early part of 2016 — the model suggests that even if the U.S. economy were to take some sort of unanticipated hit, investments in U.S. government debt would continue to be

safe so long as our country’s fiscal position remains superior to that of other countries.

The model also suggests that one of the main reasons U.S. debt is safe is because there is so much of it, and large debt size leads to a more liquid debt market. Here, Krishnamurthy explains that during and after the U.S. financial crisis of 2007-08, the Treasury issued more bonds to gather revenue while the Federal Reserve used interest-bearing bank reserves to purchase mortgage-backed securities.

In this sense, the assets essentially perpetuate their own safety — again, the more investors snatch up U.S. government bonds, the safer the bonds become relative to bonds that represent debt from other countries.

Overall, the researchers opine that the safety of an asset depends on investor beliefs. When investors believe an asset will be safe, their subsequent actions can make that asset safe. “Safety is endogenous,” they write.

In coming months, Krishnamurthy and his colleagues plan to conduct new investigations into how trade flows and exchange rates can impact the safety of an asset. They also hope to apply some of this thinking to U.S. fiscal policy; their data suggest that increasing expenditures in infrastructure (i.e., roadways, construction, the power grid) during economic downturns might be cost-effective, since financing would be “safer” and cheaper.

In the immediate future, Krishnamurthy says he wonders what the Brexit vote and a subsequent drop in bond yields might mean over the next 12 to 18 months. “Brexit appears to be a vote against the global-progressive-capitalist model that has been in ascent over the last few decades,” he says. “If this sentiment spreads around the world, it could mean a big reduction in international capital flows, which could mean a reduced demand for bonds.” ▲

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ARTISTIC INTEGRITY In the art world, should impact matter more than profit?

EXPRESSION

Investing in Art for Art's Sake

Three founders pursue a counterintuitive business model designed to benefit artists first.

BY MARTIN J. SMITH

In 2012, three Stanford alumni set out to bring a high-minded, counterintuitive business model to the anything-goes frontier of Chinese art, where business ethics are sometimes murky and counterfeiters often go to extraordinary lengths to fool private and institutional collectors.

“A copy’s intent is to mimic, not to express anything authentic,” says Craig L. Yee of Seattle, who along with fellow GSB graduate Christopher Reynolds and Stanford art historian Britta Erickson co-founded Ink Studio, a Beijing-based gallery and experimental art space that since May 2013 has been exhibiting China’s leading contemporary ink artists. “We felt it was important to get back to the intrinsic value of the art itself.”

How they did that — and built an internationally respected art business in just three years — is a direct result of the trio’s decision to employ business strategist Michael Porter’s theories about strategic alignment. “Porter talks about focusing as much on what you choose *not* to do as what you choose *to* do, and then aligning your operations to accomplish that most

effectively,” Yee says. “That alignment [among the three founders] has been critical” to Ink Studio’s unusually rapid rise to a position of stature, which includes being invited to participate in one of the most prestigious art fairs in Asia.

They began with the basics. To convince the reluctant Erickson to participate in their commercial venture (her first), Yee and Reynolds asked about her challenges as a scholar who typically deals with museums and institutional collectors. She mentioned that those entities often take three or four years to bring an exhibition to the public — “an eternity in contemporary art,” Yee says. To work with a commercial gallery, Erickson said she’d need total control over the programming, from identifying the artists with whom they would work, to the number of shows they would produce each year, to the standards for the catalogs they would produce.

“She’s been going to China since the 1980s, and she has a 30-year working relationship with some of these artists,” Yee says. “She’s not tainted by any commercial interest and has really maintained her integrity. That meant we could put together programs by working with some of the most important artists in our field.”

Next, according to Reynolds, they had to choose a position. They decided upon contemporary ink because ink painting and calligraphy have been considered the highest form of artistic expression in China for more than 2,000 years. Their market research uncovered a wave of interest in the genre among a growing population of collectors in mainland China, but also substantial confusion as to what constituted quality, since no existing gallery focused squarely on contemporary ink art. “It was a movement waiting for a leader,” Reynolds says.

Finally, Yee says, Erickson insisted that they choose not to build their business with profit as the primary motive but instead with impact and ethics as the gallery’s core mission. “Those were her requirements, so Chris and I sat down and thought about it and eventually decided that not only is this doable, but it’s a very interesting way to do business. We could establish ourselves as distinctive in the field.”

“Not many people go into the arts to build huge fortunes; you go into it for the impact you can have,” says Reynolds, who euphemistically describes many players in the Chinese art world as “short-term oriented and with flexible approaches to doing business.” But he says the Ink Studio approach “can manifest itself in a sustainable business model that will be profitable over the long term. Being very differentiated, and being transparent, and acting in the best interests of our artists and collectors — it’s kind of an open field for us.”

The approach is working, both culturally and commercially. Within three years, Ink Studio has been invited to participate in top art fairs, including New York’s Armory Show and the 2016 Art Basel Hong Kong art fair. For Art Basel, the gallery founders decided to create a single-artist exhibition that the fair’s director recalls as “impressive,” and as a result Ink Studio has been invited to return in 2017.

Reynolds reports that the gallery has rapidly turned a profit, with about half of sales going to museums, including New York’s Metropolitan Museum of Art and Hong Kong’s M+. Such sales create a virtuous cycle: The museums’ imprimatur raises the profiles of Ink Studio’s chosen artists, which improves confidence among collectors, which in turn elevates the gallery’s prospects.

At the root of that success is their focus on authenticity. Yee says the Chinese view the interplay of ink, brush, and paper in art and calligraphy as “an index of the state of character of the person wielding the brush.” He compares it to the Western notion of handwriting analysis, or to a person’s tone of voice. “You can tell a lot from it. Are they being honest or disingenuous? Are they angry? Happy? Ill? Are they focused on themselves, or have they led a life of

generosity? The Chinese believe you can read all this through a person’s brushwork.”

Their Art Basel Hong Kong presentation was a solo show featuring Li Huasheng, a critically acclaimed but highly reclusive ink painter whose abstract grids of hand-brushed lines capture the momentary, ever-shifting state of his emotions and consciousness. Collectors who seek that type of Chinese art are not just buying paintings or drawings, Yee says, but also “a record of the artist’s state of being, character, and spiritual cultivation in that moment of their lives. That’s what people see as direct and authentic expression. And if you’re not collecting something authentic, then you’re basically collecting nothing.”

As gallery owners, Yee and his partners understand their critical role in a fragile ecosystem. By dealing directly with artists, there’s less chance of selling something inauthentic. And they deal with collectors who are as interested in the cultural significance of the artwork as they are in its potential monetary value. It only works, he says, because all three of the founders share the same core values. “It’s all in how you define your mission.”

How does that philosophy fit into a world focused on the next quarterly earnings statement? Yee agrees that the pressure for short-term gains is enormous in large public corporations, but he believes that many small businesses operate on the same principles that he and his partners use to run the gallery.

“Think about a restaurant that serves ‘authentic’ ethnic food,” he says. “Their competitors turn down the heat and add a little sugar [to appeal to a wider audience]. But this restaurant has a mission and sticks to it. Eventually, the food nuts find that restaurant and make it a cause célèbre. True, the owners may never be able to franchise it, but it could end up becoming very influential.” ▲

“If you’re not collecting something authentic, then you’re basically collecting nothing.”

Craig L. Yee and Christopher Reynolds both have MBAs from Stanford GSB. Yee received his in 2003, Reynolds in 2004. Britta Erickson received her PhD from Stanford University, where she has also served as a lecturer.

RESPONSIBILITY

Fixing the “Bad Apple” Crisis in International Supply Chains

Stronger domestic regulations can forestall the tragedies behind untraceable imports.

BY KERRY A. DOLAN





BREAKING A BAD CHAIN
In 2015, rescuers freed
more than 2,000 enslaved
fishermen from Indonesia.

AP Photo/Dita Alangkara

For certain products, branding really matters. If you're selling consumer goods such as coffee, clothing, or shampoo, standing out from the competition is one of the keys to survival. Then there are bulk agricultural goods. Take Washington State apples or Florida oranges, for example. Each grower's fruit gets mixed in with those of neighboring growers before getting shipped to market. The produce can't easily be identified as coming from, say, Farmer Brown, which means that Farmer Brown might not be as concerned as he should be about the quality of his fruit.

Timothy James McQuade, an assistant professor of finance at Stanford GSB, calls these generic mixes of products "untraceable goods" and says such supplier anonymity can lead to negative impacts ranging from bruised apples to human tragedy.

Timothy James McQuade is an assistant professor of finance at Stanford GSB.



TAINTED CARGO Unbranded imports pose a challenge for regulators.

Dark secrets lie behind some unbranded imports. In 2015, reporters from the Associated Press uncovered a human trafficking scandal in which thousands of poor workers were enslaved and forced to work on fishing boats in Southeast Asia. The fish they caught ended up in U.S. supermarkets and pet food factories. The reporting, which won a Pulitzer Prize, resulted in 2,000 workers being freed. The fishing companies interviewed by the AP claimed it was difficult to police subcontractors. After an internal investigation, food giant Nestlé admitted that its Thai seafood suppliers had abused workers and said it would impose new requirements on its vendors.

In their study on the topic, McQuade and coauthors Stephan Salant of the University of Maryland and Jason Winfree of the University of Idaho delve into solving the quality problems that sometimes arise with untraceable goods,

focusing in particular on China. Their suggested solution: more governmental regulation by the countries where the suppliers are based.

The U.S. buys a significant amount of untraceable goods from China. In 2008, imports from China accounted for 60% of the apple juice sold in the U.S., more than 50% of the garlic, and 10% of the shrimp, according to the U.S. Department of Agriculture (USDA). “Over the last decade,” the researchers write, “Chinese firms have exported toys, drywall, infant formula, toothpaste, cold medicines, blood thinners, pet food ingredients, and other products laced with lead, antifreeze, and other poisons.” Product recalls by the U.S. Consumer Product Safety Commission have affected as much as 10% of China’s monthly toy exports to the U.S. and 20% of its furniture imports.

The challenge is even greater for Chinese agricultural imports, because

The U.S. buys a significant amount of untraceable goods from China.



CAGED SLAVES The Associated Press traced seafood being shipped overseas to suppliers who forced workers into labor.

production is spread among millions of small farmers, says McQuade. China has some 400,000 food or feed manufacturers, of which only about 15,000 are registered, making them legally eligible to export, according to the U.S. Food and Drug Administration (FDA). Yet McQuade and his colleagues point out that more than one third of U.S. imports from China come from non-registered firms. “China doesn’t seem to implement strict quality controls itself,” McQuade explains. The result is inconsistent quality.

“China ... accounts for a disproportionately large share of imports refused entry to the United States” by the FDA, McQuade and his colleagues write. In 2007, China accounted for 5.8% of all agricultural imports, but 8.6% of FDA refusals.

What’s the best way to encourage producers of these unbranded goods to improve the quality of their products?

Previous research has suggested consolidating production among a smaller number of players. McQuade and his colleagues reject that solution, arguing that having fewer producers would lead to higher prices for consumers. The better option, they say, is government intervention, in the form of strong domestic regulations. China does have an FDA equivalent, but it has been the focus of much controversy in recent years. In 2007, the Chinese government executed the former head of its State Food and Drug Administration after authorities determined that he’d taken bribes in exchange for approving medicine that had not been tested.

McQuade believes a stronger regulator in China “would increase the profits of all Chinese firms and increase the welfare of world consumers,” because consumers would be getting better goods.

The same theory applies to U.S. policy as well, the researchers say. For years,

the USDA has advocated stronger quality standards for a range of domestic produce — Florida oranges, Michigan cherries, and Texas grapefruit, to name a few — but those efforts have been blocked by the antitrust arm of the U.S. Department of Justice, which argues that setting such standards would harm consumers by raising prices and limiting volume.

But McQuade’s research finds that imposing quality standards can be good for all consumers. Those who continue to buy from producers in regions where regulations are lax benefit because prices drop even though quality remains unchanged. And those who buy goods produced in areas with strong regulations might end up paying more, but they’ll almost certainly see an improvement in quality. As the researchers put it, “Unilaterally imposed minimum quality standards always benefit consumers.” ▲

CULTURE

Bringing an American View to a Chinese Startup

An entrepreneur uses big data and AI to gamify the learning of English.

BY ERIKA BROWN EKIEL

When Yi Wang returned to his homeland of China from the U.S. in 2011, he soon found a way to marry the cultures of the two countries in a business startup. With a classmate and a friend, both of whom worked for high tech Silicon Valley firms, he cofounded a company that helps people learn English through a speech-recognition app that encourages community and competition among its users.

Shanghai-based Liulishuo Information Technology Co. launched its English-language learning app, called English Liulishuo (or “Speak English Fluently”) in 2013. It now has 30 million registered users.

Wang first came to the U.S. to earn a PhD in computer science at Princeton University. After graduating in 2009, he joined Google as a product manager in charge of the infrastructure construction of the cloud computing network. He also worked on Google Analytics, helping to build some of the product’s key features, such as its dashboard, widgets, and internal customer service system. He attended Stanford Ignite-Beijing in 2014.

More than 177 million Chinese people will travel abroad this year, Wang says, and he wants every one of them to be able to speak flawless English.

In 10 words or fewer, what is the big idea behind your business? Redefine language learning through technology and gamification.

How do you gamify language? When you sign on to our service, you can choose from more than 10 categories, such as travel,

business, or daily conversation, and then you select a specific topic — a “course.” Each course is a series of short dialogues chained together into a series of games. You study each dialogue by reading and role playing and getting a score from an automated speech-evaluation engine. After you complete your first level, you unlock the next, similar to Angry Birds. We have over 700 courses.

How does technology come into play? My cofounder Hui Lin, who was my classmate at Tsinghua, was a research scientist at Google doing speech recognition and data mining. Together we built an AI-based speech recognition and evaluation engine. Any kind of AI technology is hopeless without abundant data. If you have a rice cooker but no rice, you can’t make a good meal. We have the world’s largest speech database — more than 5 million hours — of Chinese speakers. As people practice and take quizzes, we keep all of those recordings. We crunch the data extensively. As far as we know, we have built the world’s first adaptive engine for learning that is built on top of deep learning technology and with a fully interactive multilevel course on mobile.

You were born in China, and then studied and worked in the U.S. before returning to China. How does that dual exposure help you with your business? My U.S. learning and working experience taught me the power of advanced technologies and how to build great products. But you need to understand Chinese customers to give them

what they want. People in China want an authentic user experience that is made by Chinese people for Chinese people. We wanted the product to be top notch and authentic to the English language, yet optimized for the local Chinese user. When we choose the topics for people to talk about, we look for things that young Chinese learners are most interested in, like American TV shows. We also added a bulletin board service, which is central to social networks in China. People want to interact with each other and follow people who are interesting — not because they look nice or are pretty, but because they share a common interest and want to speak English together.

Where do you feel more at home — the U.S. or China? I feel at home in China and I feel at home in the U.S. I am open and flexible and curious about where people come from and the viewpoints they hold. My wife and I drove across the U.S. three times. We have been to over 30 states and over 30 national parks.

You’ve seen more of America than most Americans. What did you learn about American culture? We saw the true America. The American people treasure diversity. I value this very much. In China you have one standard — get the best grades and you will have a successful life. But in the U.S., everyone seems authentic to themselves. I bring that to my company. I tell every member of my team, “You are unique. You have a gift. Our job is to help you find that and realize your full potential.”

How unusual is it for them to hear those kinds of things? I can tell this is the first time they have heard this.

Can you share a story about one of your employees where this was impactful? A girl named Erica came in 2014 when the company was one year old and had only 20 employees. She visited as an enthusiastic user and came to talk to me. She said, “I quit my job a month ago just to prepare for this visit. I really like this product. I have no experience. Do you think you can offer me any position?” She was one year out of college from a school I’d never heard of.

Yi Wang attended the Stanford Ignite-Beijing program in 2014.

Photograph by Eric Michael Johnson

YI WANG
"I feel at home in
China and I feel at
home in the U.S."



If her resume had come in, I wouldn't have interviewed her.

We have a "hello" email where we interact with users. I said, "Maybe you can handle that." Tears fell down her face. The next day she was in the office. She became someone who knows our users the best. She now leads a team of 20 people. She was a normal girl growing up, never a superstar. In China people overvalue being smart. She did not think she was smart enough. Now she shows the confidence on her face.

How did you bring that out? I told her an English phrase when she first came: "Try your best and knock the ball out of the park." And I told her, "You can grow your own path from there. Your reputation is not

given by the CEO — you earn that." That is a very American view.

What is your biggest challenge right now in building your business? We have built a product people like, and we have found a way to monetize on our premium product. Since we started monetization in April, our revenue growth has been 30% month over month. But now we have to find ways to scale that and keep making more innovative and attractive learning products, both of which require a strong team. My challenge is to build a great team with more of those Ericas so I can think more strategically about the future for the company. We are going to set up an office in Silicon Valley to attract talent, especially top AI researchers and engineers.

What impact would you like to have on the world? Our mission is to help everyone become a global citizen.

In early June I went to the highlands of Qinghai province to visit a rural area with a Tibetan orphan school. They have 300 children. Their English teacher is a user of ours. We decided to do a project with Meizu, a Chinese smartphone manufacturer. It donated 100 smartphones and we made our premium course free for all of the teachers there and their students. I asked how many had been outside the town and only one-third raised their hands. Now they can talk to foreign faces over video and have a conversation in English and learn about the outside world. ▲



PRODUCTIVITY

How a Move to Lean Manufacturing Improved Labor Standards

Researchers were surprised that workers benefited from production efficiency.

BY IAN CHIPMAN

As multinational enterprises increasingly look to less developed countries for manufacturing needs, is it possible to reconcile the tension between ethical sourcing and bottom line business incentives?

Even for companies actively striving to eliminate sweatshops in their supply chains, it can be an uphill battle. Corporate social responsibility programs designed to address poor working conditions in emerging markets are often costly to implement, challenging to evaluate, and difficult to sustain.

New research shows one possible solution: lean manufacturing.

Jens Hainmueller, an associate professor of political economy at Stanford GSB, along with Greg Distelhorst at MIT and Richard M. Locke at Brown University, analyzed Nike supplier factories that switched from traditional to “lean” manufacturing, which emphasizes efficiency and responsiveness to increase production quality. They saw a surprising spillover effect of improved conditions for workers.

Illustration by Adam Simpson



Given Nike's stature as one of the biggest apparel companies in the world, the results should be an eye opener to anyone interested in addressing social and ethical issues in global supply chains, says Hainmueller.

A NATURAL EXPERIMENT AT NIKE

In the mid-2000s, Nike launched a program to boost supply chain productivity and quality by introducing lean manufacturing principles to its apparel suppliers in the developing world. Developed by Japanese automakers after World War II, the lean production method focuses on eliminating waste, emphasizing flexibility, and enabling skilled workers.

In a traditional apparel factory, workers might specialize in performing routine tasks, such as sewing individual seams. Large bundles of inventory might stack up while waiting for other parts of production

to catch up. In this setting, a garment that needs only a few minutes of actual labor might take days to assemble. Inventory buffers also make it harder for factories to respond if a company decides to change an order size, say for a design change or in response to consumer demand, which adds costs and limits responsiveness.

In a lean environment, workers learn to perform a variety of tasks while taking an active role in process improvements, and inventory buffers are viewed as a wasteful enemy: Sewing, ironing, and packing might all be linked in a single process in one integrated system.

While Nike's program trained senior management from apparel suppliers on lean processes in waves starting in 2009, the company simultaneously performed audits of the working conditions in its supplier factories. Every 12 to 18 months, Nike scored each factory on a variety of labor standards (such as wages, working hours, and disciplinary actions) as well

as health, safety, and environmental standards (such as access to emergency exits and safe storage of hazardous chemicals). The resulting grades in the two compliance areas ranged from A and B ratings for factories with good workplace conditions to C and D ratings for factories demonstrating serious violations.

While Nike's compliance program was not related to the company's lean-adoption program, the high quality data collected from each offered the researchers a natural experiment of sorts to answer a simple question: What happens to labor standards after a factory goes lean?

Jens Hainmueller is an associate professor of political economy at Stanford GSB by courtesy and an associate professor of political science at the Stanford School of Humanities and Sciences.

SPILOVER EFFECTS

While previous research has looked at how lean affects business factors like productivity and financial performance, little is known about its impact on working conditions, especially in the developing world. One intuition might be that the emphasis on efficiency and quick turnarounds wouldn't bode well for labor standards. "We were not confident that we would find positive effects," Hainmueller says. "This is something Nike committed to for business reasons, to increase efficiency and be more productive. It's not clear that workers would necessarily benefit from it at the end of the day."

And yet, by looking at the scores for the years before, during, and after a factory adopted lean practices — and controlling for other factors — the researchers were



The percentage by which lean adoption reduced the probability of serious labor violations

able to pinpoint how that shift affected labor compliance. Adopting even a single lean production line was associated with a labor compliance improvement of nearly a third of a letter grade, while a 100% lean factory saw an improvement of over half a letter grade. Overall, lean adoption reduced the probability of serious labor violations by 15%. The researchers also found a statistically uncertain but still positive effect on health, safety, and environmental compliance. "I didn't expect to see much of a difference," Hainmueller says. "But the effect was quite sizable."

What's more, he says, introducing lean techniques didn't just dramatically bump up compliance grades — it also helped factories cross a critical divide. "It typically occurs in this crucial transition between the C-to-D grades, where you see the more serious violations, to the A-to-B grades," Hainmueller says. In other words, the gulf that marks the difference between an unacceptable and an acceptable factory in Nike's eyes.

DIGGING DEEPER

What about lean makes for better working conditions? One explanation, Hainmueller says, could be that going lean kicks off a virtuous cycle where workers are expected to be more than just cogs in a machine. That means managers invest more in worker training, which makes retention and motivation more important, which leads to more equitable terms of employment. "With these efficiency gains, you basically increase the size of the pie, and you can share more of that back with the workers," he says.

Looking across the spectrum of countries supplying Nike apparel, the researchers discovered a notable limitation to their finding. While lean adoption had a large effect on labor compliance scores in India and Southeast Asia, some countries, such as China and Sri Lanka, saw no such benefit. In Sri Lanka, the broad majority of non-lean factories already scored well on labor compliance ratings, leaving little room for improvement. However, factories in China — by far Nike's largest supplier

"You basically increase the size of the pie, and you can share more of that back with the workers."

country — typically score much lower on labor compliance grades and saw no measurable increase as a result of lean adoption.

Hainmueller says that it's difficult to pin down why Chinese factories saw no compliance benefit from going lean. "Countries are different on so many dimensions," he says. "The broader interaction between the government and the companies matters quite a bit, in terms of enforcing labor standards and ensuring that workers have a way to consult the courts, or sue the company, or engage in protest. Perhaps it takes a minimum labor standard of workers' rights, which you might have more in a country like Vietnam than in China."

Even if adopting lean manufacturing is no silver bullet for eliminating poor working conditions, Hainmueller is especially optimistic about the implications for sustainably aligning a company's global business operations and social responsibility efforts.

"There obviously might be other consequences that we have not looked at, but the beautiful result is that there is a business case for doing this and it's in the company's best interest to sustain it," he says. "But it also seems to have these positive social consequences. It's a win-win. Why not go for it, even if all you want to do is maximize your profits?" ▲



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TEAMWORK

From the Sideline to the Boardroom

A VC and a soccer coach see similarities between winning championships and running companies.

BY BILL SNYDER

Illustration by Jörn Kaspuhl

A retired Scottish footballer and a Silicon Valley venture capitalist don't seem like the likeliest of friends and collaborators. But Alex Ferguson, the longtime manager of the ultra-successful Manchester United team, and Michael Moritz, the chairman of Sequoia Capital, have more in common than you might suspect.

Ferguson, whose team won 38 trophies in the 27 years he coached, and Moritz, an early investor in Google, Yahoo, and Airbnb, have both thought long and hard about the art of management. Together they've written a book on the subject — *Leading: Learning from Life and My Years at Manchester United* — that distills the lessons in leadership Ferguson learned while heading the world's most successful sports franchise.

Becoming a star on the football pitch (as Europeans call a soccer field) and in business requires “practice, practice, and practice,” and the successful manager must always be prepared to “retune things,” Ferguson told a group of Stanford GSB students.

Moritz and Ferguson appeared together at a View From the Top session, likely the only time that two men who have been knighted by the Queen of England shared a stage at the business school. Here are five lessons in leadership they offered during their discussion and in their book.

Alex Ferguson is the former manager of the Manchester United soccer team. Michael Moritz is a general partner and chairman at the venture capital firm Sequoia Capital.

BE CONSISTENT IN IMPOSING DISCIPLINE

Being consistent, says Ferguson, is the essence of being a leader. Discipline is an important aspect of management, and employees need to know who you are and trust that you are right when you impose rules. But don't be too quick to resort to severe sanctions. "Inexperienced, or insecure, leaders are often tempted to make any infraction a capital offense. That is all well and good — except, once you have hung the person, you are plumb out of options," he says.

EMBRACE YOUR ENTIRE TEAM

Long before he became a coach, Ferguson was a player, and he still remembers the coach who didn't say good morning but would just walk by. "You must recognize that people are working for you. Knowing their names, saying good morning in the morning is critical," he says.

And every time you win a cup or a trophy, Ferguson says, you should bring every member of your staff into that canteen — "the laundry girls, the canteen staff, the groundsmen" — and pour the champagne for everyone because it's their trophy as much as the players'.

FIRING IS HARD — DO IT RIGHT

Firing people is never easy, says Ferguson, but once a manager realizes it needs to be done, "nothing beats honesty. I gradually learned that there was no point beating about the bush by taking somebody out for dinner or sending his wife a box of chocolates or flowers to try to soften the news. The gimmicks don't change the message."

THINK LONG TERM

Having the time to establish a solid foundation and to gradually build toward longterm prosperity is not a luxury afforded most football managers or business leaders, Moritz says. The pressure to win or the need to produce quarterly earnings makes the quick fix almost irresistible, but the top management of Manchester United sheltered Ferguson from that pressure. "This freedom from the tyranny of immediate results enabled Sir Alex to constantly work on the composition of the club several years into the future, without worrying whether he would still be there if United had a bad losing streak," says Moritz.

LEAN FORWARD

Body language is important: Someone who sits up properly and is leaning forward a little is showing that they are eager to start, says Ferguson. Asking questions at a job interview is crucial. "I often get a measure of someone by listening to the questions they pose. It shows how they think, offers a sense of their level of experience and degree of maturity," he says. ▲



THINK LONG Keep future goals in mind despite the daily pressure to win.

EXCHANGE

SOME FINAL THOUGHTS ON AUTHENTICITY

EDITED BY LISA CARACCILO

“When you match the drive that you got here
with the dream that you have for your life,

anything is possible.”

—**Khalid Al Ameri**, MBA '14,
from Stanford GSB Student Reflections, on Twitter
<http://stanford.io/2cZDFCo>

“The dominant culture
of masculinity in America
encourages men to

hide

their pain.”

—**Jennifer Siebel Newsom**,
MBA '01, for Insights
Read: <http://stanford.io/1SmwhuV>

“In order to live an authentic
and fulfilling life,
you have to align your personality
with your soul's

purpose.”

—**Kudzi Chikumbu**, MBA '16,
for LOWkeynotes
Watch: <http://stanford.io/1VOKJAJ>

“People today

expect more

from the brands they interact with:
authenticity, transparency, and approachability.”

—**Andy Katz-Mayfield**, MBA '11, for Insights
Read: <http://stanford.io/1UwZJRT>

“Leaders must embody the spirit they want
the team to adopt. People pick up on

phoniness.

They trust authenticity.”

—Stanford GSB professor
Joel Peterson, on Tumblr
Read: *8 Ways to Be an Authentic Leader*
<http://stanford.io/2b900vq>

“Authenticity is made up of the

passion

and warmth that
people have when presenting.”

—Stanford GSB lecturer **Matt Abrahams**,
for Insights
Read: <http://stanford.io/1SMqXBZ>

“The most important thing is to
do what you love

and what you're good at.”

—**Patrick Dillingham & Sean Koffel**,
both MBA '10, for Insights
Read: <http://stanford.io/2bDl6zx>

“Any time there's a tight race,
I get really worried for policymaking.
My concern is that people are
going to take lots of positions that

sound good

but aren't.”

—Stanford GSB professor **Ken Shotts**, for Insights
Read: <http://stanford.io/Politics>

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The Takeaway



Strong Stories Are Key

The power of storytelling enables businesses to connect with customers and employees alike.

— **Jennifer Aaker**

THE ESSENTIALS

FIVE LESSONS FROM OUR STORIES ON AUTHENTICITY

EDITED BY STEVE HAWK

It's Better to Label Online Ads

In online search and review platforms, consumers are more likely to click on well-identified advertisements than on those disguised as “organic” listings.

— **Harikesh S. Nair**



The Leadership Industry Is Broken

Too many management-training programs are fueled by idealized myths. Good managers aren't always authentic, or even honest; it's the ability to deceive that creates social power.

— **Jeffrey Pfeffer**



Your Personality Determines Your Playlist

Musical preferences are influenced more by emotional responses than by demographics or socioeconomic status.

— **Michal Kosinski**



A Fix for Untraceable Supply Chains

The best way to encourage producers of unbranded goods to improve the quality of their products is strong domestic regulations. Imposing quality standards benefits both consumers and producers.

— **Timothy James McQuade**



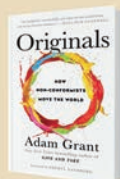
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Originals: How Non-Conformists Move the World, by Adam Grant, 2016, <http://stanford.io/2cLGt3Z>



Justin Berg

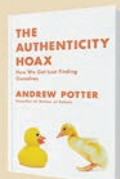
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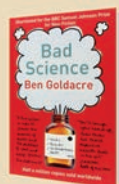
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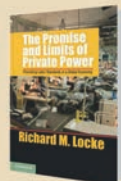
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