Stanford Business

SPRING 2018

CULTURE

A LETTER FROM
DEAN JONATHAN LEVIN

The Promise of Social Innovation

Steady economic growth over the past decade in many global markets and the U.S. has been marked by the creation of unprecedented wealth for entrepreneurs, business leaders, and shareholders across a range of industries. Recent volatility notwithstanding, the recovery we have seen in financial and consumer markets in the aftermath of the Great Recession continues to produce exciting opportunities for Stanford GSB graduates.

During the same period, however, it is clear that economic opportunities have not been distributed uniformly, a trend that has deepened inequality in many countries. Technology, despite its many benefits for humanity, brings uncertainties as it disrupts industries, outpaces regulations, and automates jobs. We face challenges in ensuring quality education, affordable housing, access to clean water, and inclusive economic development. Today, people are looking increasingly to private-sector leaders to take the initiative in addressing these issues.

Here at the school, we are well positioned to take the lead in addressing sociopolitical issues through the work of the Center for Social Innovation (CSI), led by faculty director Neil Malhotra. Dating back to 1971, when then-Dean Arjay Miller established what is now the *Certificate in Public Management and Social Innovation*, our students have been able to prioritize their academic studies to explore the fields of economic inequality, environmental sustainability, health, and education, among other areas. CSI also offers fellowships to graduating students who start social ventures. One of last year's winners, Muhammad Mustafa, MS '17, returned to Pakistan to start EasyJob, an audiovisual tool that connects illiterate workers with jobs online.

Stanford GSB alumni have a rich legacy of giving back to their communities. At a recent 25th reunion, an informal survey suggested that a majority of our alumni had served or were serving on nonprofit boards. Historically, many alumni take up community and social causes after working in the for-profit sector. Today, an increasing number of students who come to Stanford GSB aspire to integrate social impact immediately into their professional careers and personal lives and find it much easier to make the transition upon graduation than after they settle into a different career path.

We want to equip this generation of students with the tools to make positive changes in the world. Remarkably, our most recent employment report found that 13% of last year's graduating MBAs secured what they characterized as socially responsible roles in private organizations. As the boundaries blur between social and for-profit entities, businesses like Landed, a San Francisco-based for-profit company cofounded by Alex Lofton, MBA '15, which helps educators to purchase their first homes, offer new and powerful vehicles for our graduates to champion social causes.

Drew Kelly

Jonathan Levin

We also are striving to improve and diversify courses and programs that provide students with knowledge and experience to address societal challenges. These offerings include the *Stanford GSB Impact Fund*, which enables students to become familiar with investing for both financial and measurable social returns; *Startup Garage*, a hands-on course in which students design and test new business concepts, and which has recently expanded to support social ventures; and *Design for Extreme Affordability*, an intensive project-based course in which teams of students from across Stanford develop products and services that serve the needs of the world's poor. Last year, we offered the *Moving Forward After Political Confrontation* seminar to explore polarization in the United States and facilitate conversations among people with differing viewpoints.

Our faculty are also engaged in thinking about how private-sector leadership must evolve to respond to societal challenges. Faculty members Anat Admati and Amit Seru recently launched the *Corporations and Society Program*, which brings to campus public officials, journalists, judges, and other notable visitors with the goal of fostering discussions about corporate governance and the social role of corporations. An important goal of their initiative is to assemble faculty from different disciplines and from across the Stanford campus while engaging our students.

During a recent trip to meet with alumni in Mexico, I was reminded of how Stanford GSB prepares graduates to apply innovative thinking on pressing issues. I spoke with Eric Gustafson, MBA '03, whose work restoring coastal lands in the Gulf of Mexico was recently recognized by the Environmental Protection Agency. I also met with Julia Moreira, MBA '98 and executive director of Alfa Fundación. The foundation, established by Armando Garza, MBA '81 and chairman of Grupo Alfa, currently provides educational support to more than 1,000 low-income students in Monterrey, Mexico. The first cohort of students will enter college next year, and one student recently qualified for the International Physics Olympiad in Indonesia, where he took home a bronze medal.

Such inspirational achievements, along with the work of our students and faculty, will continue to fuel our efforts to develop a generation of leaders who strive for professional success while also making deep and meaningful contributions to society.

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

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"We want to make the running of organizations more efficient and cost-effective but **without creating a *Blade Runner* kind of world."**

— **Amir Goldberg**

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Stanford Business

INSIGHTS AND IDEAS FROM STANFORD GRADUATE SCHOOL OF BUSINESS

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CULTURE SHOCK What matters more — fitting in at first glance or being able to adapt? PAGE 28

Above: Jane Barlow/PA Wire /Associated Press; left: Gabriela Hasbun

Cover illustration by Jorge Colombo

FROM THE EDITOR

CULTURE

This past January, I met with several Stanford GSB alumni who were on campus for an alumni association board meeting. I had some questions for them about this magazine, including a very basic one: Do they read it? ▶ When we met, the first thing I noticed was how happy and engaged in the moment they were. Yes, it could be related to the fact that they were back under the inspirational blue skies and palm trees of Stanford. But I see this wherever I meet alumni, whether here or at chapter events. ▶ They were eager and prepared to discuss their opinions, and to ask me some questions of their own. ▶ It was no surprise, of course. They reminded me of the MBA students I see every day on campus chatting over coffee, lunch, or Skype. That optimistic energy is decidedly Stanford GSB. (How organizations create such effective and creative cultures is one of the questions addressed in this issue.) ▶ As I sat down with the group, I took a deep breath and awaited their answers. Yes! Most of them read the magazine, and many of them do so cover to cover. One alum said he knows that when he opens it he will find stories curated around a particular topic: It's like fine Japanese dining, he said, as opposed to a cheap buffet. ▶ Many said they feel such a strong "emotional connection" to the publication that they hesitate to put it in the recycling bin when they're finished reading it. Phew! ▶ One described feeling a sense of pride when seeing a copy of it at a fellow former classmate's home. Some confessed — and don't take this wrong, they assured me — that *Stanford Business* has earned its place among the indispensable periodicals in their bathrooms. ▶ I was oddly honored. ▶ But the news was not all good. One alumnus said he's retired and thus has become less interested in the topics we cover. Another said she's just too busy. ▶ I took that as a challenge to find ways to make the magazine even more relevant to a wider audience. Meanwhile, please write and let us know what you find relevant in *Stanford Business* magazine — and what would make it indispensable to your household.

— DEBORAH PETERSEN, EDITORIAL DIRECTOR

Two Builders Playing Chess, by Jacob Lawrence

ENGAGE

Readers Share Their Thoughts

We were very pleased to see articles in the Autumn 2017 issue of *Stanford Business* about the work of Gayatri Datar at EarthEnable ("Paving the Way to Healthy Homes") and Jane Chen at Embrace ("Embrace Core Values and Success Will Follow").

Project Redwood is a social venture initiative of Stanford GSB alumni that evaluates and funds projects that address poverty issues, especially in the developing world. We financially supported EarthEnable's and Embrace's early efforts to refine and implement the concepts their teams developed in the *Design for Extreme Affordability* course.

It is rewarding to see the impact of our "catalytic capital" on EarthEnable, Embrace, and other Stanford-related social ventures. Due in part to Project Redwood's involvement, these ventures have been able to develop a track record of success that has led to significant funding for expansion.

We congratulate Gayatri and Jane and look forward to working together with other GSB alumni to change the world.

Sincerely,
— DAVID FLETCHER, MBA '80,
Newport Beach, California
— AMY MINELLA, MBA '80,
Jackson, Wyoming
Project Redwood co-chairs
www.projectredwood.org

Great article by Matt Abrahams on communicating your ideas in job interviews ("Three Questions You Should Always Ask," Summer 2017), which I am eager to share with our daughter, who's working in Tanzania.

It's also quite useful in my work as a bullying prevention specialist and author. I'm currently approaching corporate sponsors, foundations, and charities to work with us to provide my newest book, *I've Got Your Back*, to organizations that distribute school supplies to children and teachers.

Thanks for keeping the magazine fresh and relevant. Always something new to learn!

Warm regards,
— LORNA BLUMEN, MBA '84
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STANFORD BUSINESS ONLINE

EDITED BY JENNY LUNA

Robyn Sue Fisher

WEB

"My mantra is 'No regrets.' I'd rather try my hardest and fail than play it safe and ask, 'What if?'"

Robyn Sue Fisher, MBA '07, founder of Smitten Ice Cream, talks about her move from a management consultant to the streets of San Francisco.

http://stanford.io/2CTj9vJ

YOUTUBE

A Week in the Life of Stanford GSB

We gave five MBA students cameras and asked them to record their lives the week before graduation. Here's what they captured, in three minutes.

http://stanford.io/2j11wEZ

YOUTUBE

Stop Avoiding Information

Marketing professor Szu-chi Huang found that social networking can help motivate people to reach their goals — as long as they use it at the right time.

http://stanford.io/2slHmde

YOUTUBE

What Successful Entrepreneurs Know

Founders at companies like Tesla, Paypal, and Airbnb all have traits in common. Learn what six skills they share.

http://stanford.io/2zks1fK

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Lives

Jorge Colombo

"If you're first
hired at a lower salary,
then that figure can follow you over a lifetime."
— **Adina Sterling** PAGE 24

ECONOMICS

A Hands-on-the-Wheel Approach to the Gig Economy

To learn how Uber and other freelance platforms work, economist Paul Oyer got in his Audi and drove.

BY STEVE HAWK

Over the past few years, Stanford Graduate School of Business professor Paul Oyer has explored the growing gig economy from many perspectives. He's analyzed hourly and annual income differences between freelancers and full-time employees. He's researched (and consulted for) Upwork, the world's largest freelance website. He's nosed around Uber's database. And last year, to better understand how the ride-sharing platform works, he became one of the company's certified drivers.

We recently sat down with Oyer. Our main goal was to learn more about the many cultural shifts being caused by the exploding gig economy, but we also wondered what a tenured professor of economics learned by driving people around for money.

Why exactly did you decide to become an Uber driver? I'm a labor economist and I often study specific groups in the labor market. For instance, I once wrote a paper about the careers of economists. In that case, I fully understood the institutional context. Then I started researching and doing some consulting for Upwork. I considered looking for work using Upwork's platform, just to get a sense of how it operates — the institutional context — but I don't really have any skills to sell as a freelancer.

Paul Oyer is the Fred H. Merrill Professor of Economics, and Rebecca Diamond is an assistant professor of economics (by courtesy), at Stanford GSB.

Photograph by Winni Wintermeyer

PAUL OYER
"The gig economy has many advantages and disadvantages, but the big advantage is flexibility."

There's not a lot of demand for labor economists on Upwork. Exactly. But with Uber, the barriers to entry to becoming a driver, and thus a worker in the gig economy, are so low that if you want to study it from an academic perspective, you can just go try it out. It's easy to get embedded in the market as you analyze it. By the way, this is all work I'm doing with [Stanford GSB assistant professor] Rebecca Diamond, as well as with people at Uber, who have given us access to a lot of their data. Rebecca and I got interested in this because we wanted to learn more about the value of flexibility in the gig economy. The gig economy has many advantages and disadvantages, but the big advantage is flexibility. You work when you want to work. In particular, we wanted to run experiments that will give us a sense of how women value that flexibility relative to men.

What have you found? We're still in the early stages, but one thing we found is that Uber's male drivers earn about 7% more than their female drivers. Now, as a labor economist, I'm always interested in differences between male and female pay, especially when discrimination is involved. But with Uber, the algorithm that assigns drivers to riders is gender-blind. Men and women are treated the same.

Our operating hypothesis was that differences in the value of flexibility would be key here. We figured that any difference in pay by gender would be explained by the fact that Uber's male drivers are more likely to go out late at night or when the surge rate is up [drivers earn more per ride when demand surges], whereas female drivers are more likely to drive on weekdays, when their kids are in school. More men are chasing the money and more women are sort of fitting the work into their schedule.

Did that explain why male Uber drivers make more than female drivers? That flexibility difference turned out to be a small part of the picture. Two other factors were more important. First, male Uber drivers drive more hours per week and are more likely to stay on the platform. That pays off financially because it turns out there's a pretty sizable learning curve. A typical male Uber driver is more experienced and, as a result, he makes more money. The other factor is a gender difference that holds in the population at large — men drive faster than women. Driving an Uber faster increases pay.

As an economist, what did you learn driving for Uber? I started driving because I wanted to understand what other kinds of experiments we could run. It's been very useful. For example, that learning-by-doing advantage is partially due to drivers getting better at accepting or canceling rides strategically. In my early days as a driver, I really didn't know what I was doing. I wasn't strategic. But it's something you can pick up over time.

I also learned that while the gig economy is nice in the sense that you can be very flexible, it also puts a lot of pressure on you. You're constantly thinking, "Do I want to go out and drive? If I don't go out and drive, I'm not going to make any money." The same is true of almost any gig job — you're a mini entrepreneur. Nobody's paying you if you aren't actually working. You've got to get out and do it.

You've mentioned that instability is one of the primary disadvantages of freelancing, but you make a distinction between instability and risk. Can you explain that? As a gig economy worker, you have to develop the ability to handle fluctuations, which means managing your workload in a way that you don't have to if somebody else is your boss. It also means managing your cash flow in a way that you don't have to if your paycheck looks the same every two weeks. So, there's some instability in all of that but not a ton of risk.

Today, if you're a software programmer on Upwork, you can stay very busy. The economy's doing really well. Almost any programmer who wants a full-time job can have one. As we're speaking, the Nasdaq is hovering around 7,000. But if the Nasdaq crashes back down to 3,000 sometime soon and businesses start closing, a lot of programmers will be looking for work. That means that almost everybody on Upwork will lose some work. By comparison, if a company closes or has layoffs, some people will lose their jobs entirely, which is a much bigger disruption. People who might lose their full-time jobs in a down economy are at even greater risk than gig workers who might lose some, but not all, of their income.

Also, it's interesting to note that people who choose to work in the gig economy make less on a per-year basis, but only because they're working fewer hours. My best estimates are that they make 6% less per year, but about 15% more per hour. If you're working in the gig economy by choice, you can charge a premium per hour.

15%

Workers in the gig economy make 6% less per year than corporate employees, but about 15% more per hour.

You've also done some research into the way that the gig economy redistributes wealth. How does that work? I think we can say pretty clearly that platforms like Upwork and other freelancing sites that operate across boundaries are making a small contribution toward lowering overall global inequality. People who are talented and happen to live in the Ukraine or the Philippines or India can do work for American companies that would otherwise cost those companies a lot more if they hired Americans to do it. Not many jobs can be outsourced that way, but some can. For those jobs, we're taking money from a relatively rich place and moving it to a less rich place. And when that money gets spent in, say, the Philippines, it's not just good for the gig worker, but also for the other Filipinos.

The same is true here in the U.S., although to a lesser degree. The average buyer, or employer, on Upwork is from a zip code where the income is 36% higher than the national average, while the average seller, or freelancer, is from a zip code where the income is only 14% higher than the national average. You're taking people who live in middle-class areas and you're allowing them to do work for people who live in upper-class areas.

It seems like one of the potential cultural downsides to the growing gig economy is that it reduces the social safety net. It's hard to isolate that from the overall bifurcation of society into the haves and the have-nots. Inequality in the U.S. is dramatic and problematic right now. Over the last 50 years, the average income of men without a college education has literally dropped, adjusting for inflation. It isn't that it's gone up slowly — it's actually *less* than it was 50 years ago. On the other hand, for the average person with a professional degree, income has doubled or more in that same time.

That's a big problem, and I don't think the gig economy itself is making that worse. Being a low-skilled worker today is really difficult, whether you're working in a traditional job or working gigs. In fact, an argument could be made that the gig economy is kind of an alternative safety net itself, because when you lose your job, you can keep your head above water by getting work on Upwork or TaskRabbit or Wonolo or Shiftgig.

What about the fact that so many people depend on their employers for health insurance and retirement benefits? As the gig economy grows, there will have to be some public policy reactions to it. We're going to have to make it easier for people to get those benefits on their own, especially when it comes to health insurance. That means adopting public policies that encourage the portability of benefits — as we've already done pretty successfully with retirement plans. But overall, in the United States, the safety net is pretty weak, and the growth of the gig economy is not going to make it any better. Figuring out how to handle health care for gig workers is a huge concern but it's actually small in the scheme of the overall health care policy challenges we face in the U.S. right now.

For a lot of people, there's a kinship aspect to going to work at a company every day. They see their coworkers as a second family. But that goes away when you freelance, which can be kind of lonely. Yeah. That's a great point. A person's work is about more than just a paycheck. There's a cultural and social benefit to it. People make close friends and even meet significant others at work. The gig economy is not a good fit for a lot of people for that very reason. Many people place a high value on the flexibility of the gig economy but many others place a huge value on the structure of a traditional job.

A lot has been written about how much businesses can save by using freelancers. When *shouldn't* an employer dip into the gig economy? Being a successful business is all about differentiation, while the gig economy is all about commoditizing the labor pool. You don't want to mix those two things up. If your business is successful, it's because you have a competitive advantage — you're doing something that's hard for other companies to replicate. You should not be hiring workers through the gig economy for any job that's key to creating or maintaining your competitive advantage.

> **"A person's work is about more than just a paycheck. There's a cultural and social benefit to it. People make close friends at work."**

Getting back to your stint as an Uber driver — did you learn anything surprising? For one thing, you see a side of yourself you might not have known was there. I committed at the beginning that I was going to donate all of my earnings to charity, because I was already being paid by Stanford and was doing the Uber driving as part of my research. Even so, there would be days where I'd do all this driving and I'd look at the app and I'd be like, "That's all I made?!"

Is that because of the way the platform is kind of gamified? I don't know that I would say it's overly gamified — Uber gives driver lots of information so they can make appropriate choices. But it did bring out my naturally competitive side. I'm inordinately proud of my high rating from passengers — although that might have been because I was driving an Audi. There were some other nice surprises along the way, such as the fact that the vast majority of passengers turn out to be nice and interesting. I never had a bad experience with a passenger.

Did you tell any of them what you were really doing? Never. No.

Did you ever have to fib? I never lied. But it's possible that I didn't always provide a full answer to every question. ▲

INTERACTION

How to Survive the Office Jerk

Some tips for dealing with coworkers who mistreat you.

BY SHANA LYNCH

Odds are you've had to work with a difficult or even detestable person. That boss who takes pleasure in calling you on a Sunday to push a deadline up on a major project. The coworker who never gives you quite enough information to succeed in a team assignment. The continually dissatisfied client who proclaims his disappointment, always at top volume.

"Believe me," says Robert I. Sutton, "they're everywhere."

Sutton, a professor of organizational behavior, by courtesy, at Stanford GSB, has become an expert in dealing with jerks. His 2007 book *The No Asshole Rule: Building a Civilized Workplace and Surviving One That Isn't* was a *New York Times* bestseller and won a Quill Award for best business book. His latest book, *The Asshole Survival Guide: How to Deal with People Who Treat You Like Dirt*, hits shelves this week.

Here Sutton discusses ways you can work with the brutes without losing your mind.

Is the workplace just filled with awful people? The Workplace Bullying Institute conducts research asking, "Have you ever seen, observed, or been subjected to prolonged bullying or repeated bullying?" Replies vary slightly from year to year, but essentially 50% of Americans say "yes." And then, when asked, "Have you ever been the perpetrator?" — less than one-half of 1% answer yes. Obviously, something is wrong.

So is it us or them? We human beings are not able to see our own weaknesses. The best we can hope for is to have people in our lives who will tell us the truth. I talk about the power of having the right spouse or life partner to tell you the truth. But it can be a mentor, or a friend. Just be quick to label yourself as part of the problem and slow to label others.

Let's assume that we are not the jerk. Is there an acceptable level of nastiness? And if there is, how do we assess it? There's no scientific gauge above which somebody goes from tolerable to intolerably damaging. A lot of the signs have to do with how you are affected personally. How much are you suffering? How's your physical health? How's your mental health? Are you becoming toxic yourself? It is very contagious. The other thing that I would ask is how much abuse are you willing to take to get what you want.

What are the signs of a certified jerk? If there's a trail of people who feel demeaned, de-energized, and hurt wherever that person goes, that's usually an indication.

How do you handle a slime who's a client? It gets really tough when you've got somebody who is really, really lucrative but treats people like dirt. That's where at least you want to try to have a conversation with him or her. But that's part of what a senior partner's job is — to cool that individual down, to caution them to treat people with more respect.

But honestly, if getting rid of the client means that people don't eat and your firm goes out of business, it's a lot tougher than if it's a small client or a customer with whom you're having just one interaction.

When I have private conversations with people in the professional services industry, they always talk about an "asshole tax": The nastier you are, the more money you end up paying and the worse people you have serving you.

What should you do if the jerk is your boss? First, can you get out or can you move? It's really hard for me to find people who quit because their boss treated them like dirt and were sorry about it. But a lot of times, moving from one organization to another is not as smart as moving to a different part of the organization you're already in. When you stay in your own organization, you have more information about where you're going than if you move to a different firm. The company that does this most consistently and effectively is Salesforce.com. Every three or four months in engineering, Salesforce has a job fair where people recruit one another and talk about switching teams. The goal is to make it as easy to switch within the company as it is to leave the company.

But the key thing here is not to be stupid about it. It's so easy to be impulsive and say,

NBC/Photofest

LOOK OUT FOR BULLIES Use "mind tricks" to protect your soul from toxic coworkers.

"On average, the more well-educated and the wealthier and more prestigious people are, the worse they are."

"Take this job and shove it," but if you burn bridges, all sorts of bad things happen.

What if you can't leave or transfer? If you can't escape the situation, treat the jerk as a toxic substance that you avoid as much as possible. Research shows if you're more than about 100 feet away from somebody you work with, they might as well be in another country. If you're within 25 feet of a toxic person, the chances that you will also become toxic go up — and the chances that you're going to get fired go up as well.

Also, meet with toxic people as rarely as possible. Try to find ways to reduce the frequency and intensity. One example from the book is a doctoral student who would get all these nasty emails from her advisor. Instead of answering everything right away, she'd wait a couple weeks and send a single measured email in response to the whole batch. Find ways to slow the rhythm.

What if you have to sit near the sleaze? There are mind tricks to protect your soul — ways for the situation to be less upsetting to you even though you can't change it. My favorite is a guy at Stanford who pretends that he's a doctor who studies "a-hole-ism." When he sees these people in meetings, he pretends that it's a privilege to be able to see such a rare specimen. It's a sort of detachment — pretending you're a doctor, just observing.

What's the tactic of last resort? The last one is fighting back. You should do this only with proper precautions and with a lot of thought. Your chance of winning go up when you understand the power structure and dynamics, document the bullying, and gain allies.

What if the cad is just clueless, not mean? Pulling them aside and having a conversation with them can be quite powerful.

How do you avoid jerks from the start? What's the best way to hire an employee? Give the individual a job sample test. Or in the modern gig economy, do a project or two with the prospect and see if it's going to work.

And when interviewing for a job, watch for how a potential boss treats you and other people. There was a manufacturing manager candidate who, during his interview and company tour, noticed as they walked through the floor that everybody was avoiding the boss. They were silent and acted afraid of him. And then, during the interview, the potential boss wouldn't listen and kept interrupting. So that's a reasonable diagnostic sign. Also, talk to people who work there, especially for the immediate boss and work group that you're going to go into.

What creates jerks? On average, the more well-educated and the wealthier and more prestigious people are, the worse they are. ▲

Robert I. Sutton is a professor of organizational behavior (by courtesy) at Stanford GSB.

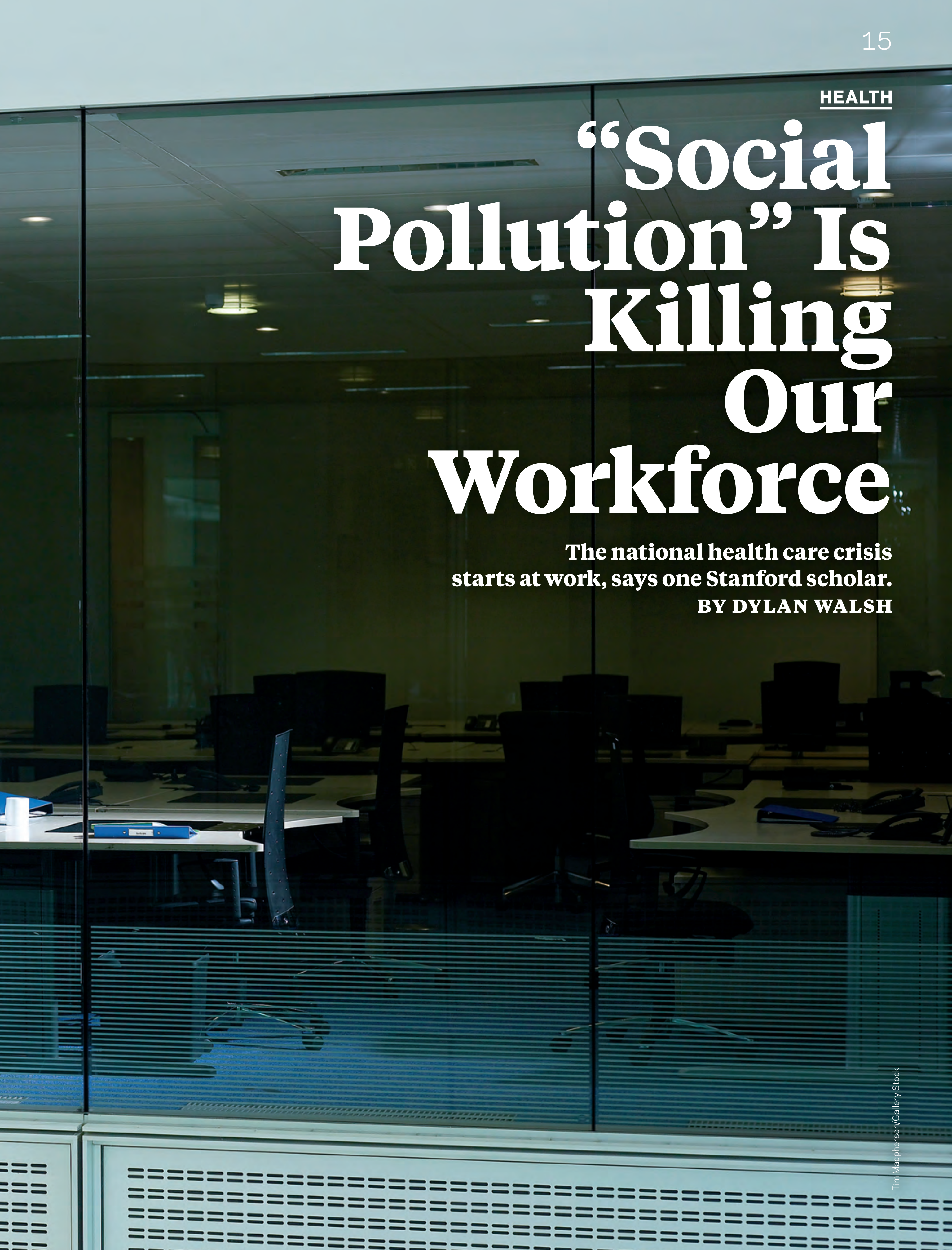

THE COST OF STRESS
"I see a workplace that has become shockingly inhumane."

HEALTH

"Social Pollution" Is Killing Our Workforce

The national health care crisis starts at work, says one Stanford scholar.

BY DYLAN WALSH



Tim Macpherson/Gallery Stock

Jeffrey Pfeffer has an ambitious aspiration for his latest book. "I want this to be the *Silent Spring* of workplace health," says Pfeffer, a professor of organizational behavior at Stanford GSB. "We are harming both company performance and individual well-being, and this needs to be the clarion call for us to stop. There is too much damage being done."

Dying for a Paycheck, published by HarperBusiness and released in March, maps a range of ills in the modern workplace — from the disappearance of good health insurance to the psychological effects of long hours and work-family conflict — and how these are killing people.

Pfeffer recently sat for an interview with *Stanford Business*. The following has been edited for length and clarity.

I was struck by the story of Robert Chapman, CEO of Barry-Wehmiller, standing in front of 1,000 other CEOs and saying, "You are the cause of the health care crisis." It's true. He takes three points and puts them together. The first point, which is consistent with data reported by the World Economic Forum and other sources, is that an enormous percentage of the health care cost burden in the developed world, and in particular in the U.S., comes from chronic disease — things like diabetes and cardiovascular and circulatory disease. You begin with that premise: A large fraction — some estimates are 75%— of the disease burden in the U.S. is from chronic diseases.

Second, there is a tremendous amount of epidemiological literature that suggests that diabetes, cardiovascular disease and metabolic syndrome — and many health-relevant individual behaviors such as overeating and underexercising and drug and alcohol abuse — come from stress.

And third, there is a large amount of data that suggests the biggest source of stress is the workplace. So that's how Chapman can stand up and make the statement that CEOs are the cause of the health care crisis: You are the source of stress, stress causes chronic disease, and chronic disease is the biggest component of our ongoing and enormous health care costs.

Has this connection always been there, or has there been an evolution in workplace culture that got us to this point? I think the connection as just described has always been there, because the physiology and etiology of disease have not really changed. But I would say that with all the evidence I've encountered — and it's not perfect evidence — I've seen nothing inconsistent with the statement that the workplace has generally gotten worse.

Job engagement, according to Gallup, is low. Distrust in management, according to the Edelman trust index, is high. Job satisfaction, according to the Conference Board, is low and has been in continual decline. The gig economy is growing, economic insecurity is growing, and wage growth overall has stagnated. Fewer people are covered by employer-sponsored health insurance than in the past, according to Kaiser Foundation surveys. And a strikingly high percentage of people, even those covered by insurance, say they forgo treatment and medications because of cost issues.

I look out at the workplace and I see stress, layoffs, longer hours, work-family conflict, enormous amounts of economic insecurity. I see a workplace that has become shockingly inhumane.

You reference professor Nuria Chinchilla [of IESE Business School], who describes this as social pollution. What does that mean? She has said that the real inconvenient truth is not just that there is environmental pollution, which there certainly is, but that there is also social pollution. The work hours that companies are demanding of their employees are causing the breakup of marriages, burdens on raising children, and general disruption to family life. And the family unit is an important source of social support.

You can see this in stories from my book — the GE guy who's on the road all the time and never sees his kids until he finally decides to quit. So she coined the term "social pollution," and I think it's a wonderful term.

Companies should care about what they are doing to the social environment, not just the physical environment.

You draw that out in the book: a focus on corporate sustainability that ignores social damages. No one would ever stand up — or at least not many people — and say, "We clear-cut this forest" or "We took the top of this mountain off for coal, and aren't we proud." But 3G Capital will proudly stand up and say, "We've laid off one-fifth of the workforce. Let's pat ourselves on the back!"

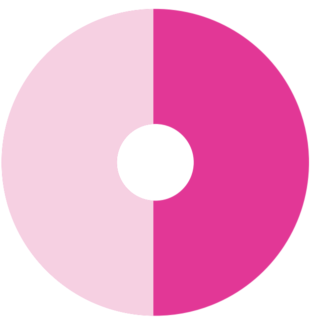
And we tolerate it. The point I make several times is that there are behaviors with respect to the physical environment that we have decided are impermissible. You are no longer permitted to burn whatever you want and throw it into the air, or dump whatever chemical you want into the water. Companies have accepted this and now parade their environmental bona fides.

Meanwhile, these companies are engaging in all kinds of things that are harming the human beings who work for them. These are things they should report on, and these are things that we should stop tolerating.

Why is this normal? I can speculate. Maybe it's because we see the polar bears and the trees and the physical environment as not being agentic, in the sense of not being able to take action to defend themselves. And maybe we see human beings as being more agentic and responsible for their own well-being.

When I talk about this book, I've had plenty of people say to me that if someone doesn't like where he's working, then he needs to go find another job. Which is easier said than done.

You talk about a number of barriers to moving, and one of those is individual psychology. What is that psychological dynamic? There are many issues. One simple one that we should never overlook is sheer exhaustion. Finding a job is itself a job. If you are physically or psychologically drained by workplace stress, then you're not going to have the capacity to go out and look for another job.



50%

of employees have missed time at work because of stress.

Companies also play to our egos. They say, "What's wrong with you? Aren't you good enough? We're a special organization. We're changing the world and only certain people are going to be up for the task." Who wants to admit they're not good enough?

And we are influenced by what we see our peers doing. I've had people say to me: "I look around and all my colleagues are working themselves to death. What makes me think I'm so special that I don't have to?" We have come to normalize the unacceptable. It's hideous.

You make clear that yoga classes and nap rooms won't fix this. What are some of the ways this culture might change? I don't think it's going to. What changed environmental pollution? People decided that we were not going to permit companies to create a world with polluted air and fouled water.

I cannot see that happening with respect to the workplace in the current political environment and the push for deregulation. And, for reasons I've already alluded to, I think people don't necessarily see, recognize, or appreciate what's going on in the workplace. To the extent that they do, they think it's inevitable — everyone has to be working long hours and be miserable.

You know what might change this? I gave a talk on this to Stanford alumni and afterward a lawyer came up to me and said there are going to be lawsuits.

On what grounds? In a way parallel to the lawsuits that were filed against tobacco companies. Some companies are killing their workers. People have been harmed. If I had to bet on how this will change, some company is going to get sued, some lawyer will win an enormous award, and that will open the floodgates.

If you meet with executives, can you make a competitive strategy argument to not treat employees this way? Of course.

Is that effective? Depends on whether they have any sense.

There's data on this — there shouldn't need to be, but there is — that suggests that when people come to work sick, they're not as productive. Companies have problems with presenteeism — people physically on the job but not really paying attention to what they are doing — with lost workdays from psychological stress and illness, with high health care costs. Seven percent of people in one survey were hospitalized — hospitalized! — because of workplace stress; 50% had missed time at work because of stress. People are quitting their jobs because of stress. The business costs are enormous.

> **"Some company is going to get sued, some lawyer will win an enormous award, and that will open the floodgates."**

Did you change your mind about anything when working on the book? Yes, I changed my mind in the following way: It's worse than I thought. And obviously these workforce things that cause ill health do not fall equally on the population. If you are less educated, you have more economic insecurity, the likelihood of receiving benefits is lower, your ability to control your work hours and your job are worse, and so health outcomes are worse. But I didn't think it would be as bad for as many people.

I didn't think the workplace would be the fifth leading cause of death in the United States. And, by the way, when I talk to HR people, they say the numbers we have are certainly wrong: They are too low.

I want to wake people up. This is a serious issue that has serious consequences for corporate performance and for people's well-being. We should care about people's psychological and physical health, not just about profits. ▲

Jeffrey Pfeffer is the Thomas D. Dee II Professor of Organizational Behavior at Stanford GSB.

EQUITY

Dismantling Gender Bias, Brick by Brick

Curb inequality — and cultures that countenance sexual harassment — with modest, daily actions.

BY ALEX SHASHKEVICH

At a time when many companies are feeling pressured to report on and reduce gender inequality within the workforce, a Stanford sociologist is finding success with a step-by-step method for eliminating the bias at the root of the problem.

In a recently published paper in *Gender & Society*, Shelley Correll, director of the Clayman Institute for Gender Research and a professor (by courtesy) of organizational behavior at Stanford GSB, explains the process, which she and her team piloted and found successful while working with several technology companies over the last three years.

The method, which Correll dubs "a small-wins model," focuses on educating managers and workers about bias; diagnosing where gender bias could enter their company's hiring, promotion, or other evaluation practices; and working with the company's leaders to develop tools that help reduce bias and inequality in measurable ways.

"The change we can realistically expect to produce in any one instance will be small, imperfect, and incomplete," Correll writes. "Step by step, I believe that these small wins are the path to achieving our larger goal, which is the transformation of our organizations."

WHEN BIAS TRAINING BACKFIRES

Over the past 30 years, research has shown that stereotypes about what men and women are capable of and how they should behave cause people to evaluate the genders differently, especially when the criteria for evaluation are ambiguous. This bias puts women at a disadvantage in workplaces, where they get hired and promoted at lower rates than men.

Women are usually subjected to a higher bar, requiring more evidence than men to be seen as qualified. In addition, if coworkers judge a woman to be competent, they often judge her as less likable, a correlation that doesn't hold true for men.

Because of this research, many companies in recent years have invested

Shelley Correll is a professor of organizational behavior (by courtesy) at Stanford GSB and director of the Clayman Institute for Gender Research at Stanford.

Photograph by Drew Kelly

SHELLEY CORRELL
"Small wins ... are the building blocks to larger change."

resources into reducing the kinds of bias that lead to gender imbalance. The two most common approaches have been unconscious bias training and instituting achievement-based criteria for hiring and evaluating employees.

Correll says that although the two approaches help companies with diversity, they are not complete solutions.

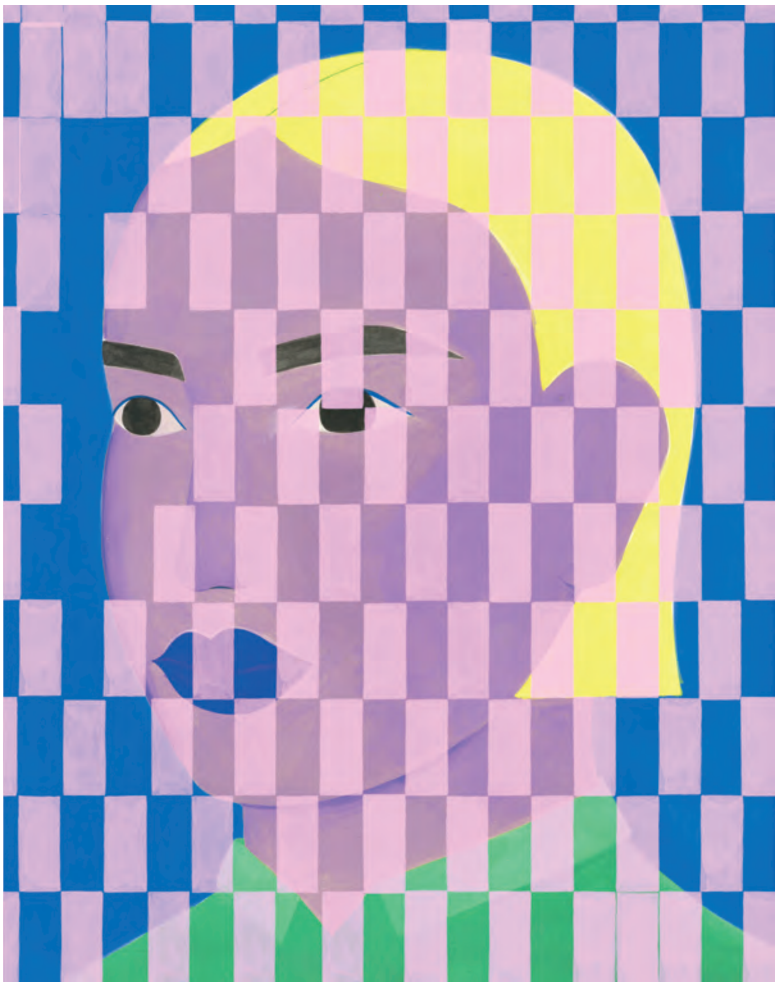
While unconscious bias training is important and helps improve short-term behavior during hiring and promotion decisions, the effects wear off over time and can be threatening to people in power, leading to more bias rather than less, Correll says.

Formal procedures for hiring and promotions also haven't been entirely successful. For example, Correll writes, fire departments previously used height as a criterion for screening applicants. Despite height being an objective benchmark, its requirement screens out more women than men and a person's height isn't directly related to one's ability to perform the job of a firefighter.

"Bias training can backfire, increasing bias; and formal procedures can be misused by decision makers or, worse, have gender biases built into their design," Correll writes. "In spite of these limitations, I argue that educating about stereotyping and bias and formalizing evaluation processes are two key building blocks crucial for producing sustainable change."

SMALL WINS ADD UP

Although neither approach alone has been entirely successful, Correll argues for combining the two in a way that measures small incremental changes within the organization.



In this model, a company would provide workers with bias training and experts would analyze the company's procedures to understand where bias might be creeping in. The experts would then work with managers of the company to develop and implement better procedures and to evaluate what changes they produce.

The process focuses on creating objective performance checklists and other tools that eliminate ambiguity and the chance for bias from people using them.

"To create sustainable change, we need to shift the target of change from the individual decision maker to organizational processes," Correll writes.

Correll and her team tried this model with several companies over the past three years as part of Stanford's Center for the Advancement of Women's Leadership. They found measurable improvements in gender equality at those companies.

For example, at a mid-size technology company in the western U.S., Correll helped to put in place a new employee scorecard that managers could use to evaluate their staff during "calibration meetings," in which managers met to align their ratings. Before the new scorecard, comments during these discussions criticized 14% of women for being "too aggressive" and 8% of men for being "too soft." A year later, after rolling out the new scorecard, those figures dropped to zero and 1%, respectively.

"The small-wins approach gives people results and something small they can do daily," Correll says. "Those small wins start to add up. They are the building blocks to larger change." The same approach can be applied to creating change in regard to sexual harassment. Raising awareness about gender dynamics and cultural issues that give rise to harassment enables companies to better address the root causes. Armed with these insights, companies can then work to reduce and prevent mistreatment by implementing policies and fostering cultures of professionalism and respect.

Correll says she has been inspired by the number of managers and leaders dedicated to equality in the workplace whom she has met over the past three years. Although eliminating bias and inequality will take a long time, she's optimistic.

"It's encouraging to see that many people genuinely want to be more inclusive," Correll says. "These companies didn't have to open up to us researchers. And I can't stress enough how valuable working with them and evaluating their data has been." ▲

Illustration by Monica Ramos

ENTREPRENEURSHIP

When Lean Meets Luxury

How a handbag company used startup-garage tactics to market directly to multidimensional women.

BY MARTIN J. SMITH

When **Coral Chung** and **Wendy Wen** met at a friend's birthday party in March 2013, they began a conversation that eventually led to a remarkable question: Could the same lean startup principles often used to launch high-tech enterprises also work when launching a direct-to-consumer luxury goods company?

At the time, Chung, a 2011 Stanford GSB graduate, was a strategy consultant who'd advised Fortune 500 companies on retail strategy for luxury brands. Wen, an investor at TPG focusing on equity investments in tech and retail, had just been accepted at Stanford GSB and would graduate in 2015.

But both had an entrepreneurial itch, and both had noticed a disconnect between luxe brands and millennials. Why didn't high-end handbags include space for laptops and tablets, for example, when so many powerful women rely on those tools to do business? And how could they keep the price low enough to appeal to younger buyers?

The answer, they found, was to bypass the traditional retail system and, to keep costs down, sell their line of lightweight, versatile bags direct to consumers. The only problem: Neither had any direct-to-consumer experience.

They incubated their idea in Chung's garage and developed two Italian-made handbag styles priced at $895. By March 2016, they'd raised $1.3 million in funding from angel investors and partners, and in November that year they launched Senreve, a company whose name blends the French words for "sense" and "dream." Chung is the CEO, Wen the COO, and together they now oversee more than a dozen full- and part-time employees and interns.

They've since expanded the line to include five handbags and four accessory products, which now are sold in select Nordstrom stores. They opened an appointment-only showroom in San Francisco's Union Square area in February.

Help us understand this "disconnect" you saw between millennials and the luxury market.

Wen: Most luxe handbags are designed for an aristocratic woman who isn't working, but rather lunching and planning charity events. That's a very different lifestyle from a modern millennial who has the income but is working, maybe as a partner at a law firm. She's multidimensional and juggling a million things, but she still loves elegance and quality. For her, a handbag is more than an accessory. It needs to be her home away from home.

Chung: She's traveling, commuting, and she needs something that transitions seamlessly from a meeting, to the gym, to cocktails and dinner. It's not so much an age thing as a lifestyle thing.

But what convinced you that your target buyers were willing to pay $895 for a handbag?

Wen: We're actually quite disruptive from the price standpoint. Some big-brand bags sell for as high as $3,500 to $5,000.

Chung: The Louis Vuittons, Chanels, and Pradas are all well above $1,000. But because we sell direct to consumers, we can offer lower prices.

What helped you attract investors?

Chung: They were impressed we were taking the lean startup approach and applying it to something that traditionally doesn't operate that way. We did a lot of legwork, so that by the time we launched we were confident we'd be successful.

Wen: We weren't satisfied with the traditional fashion product rollout model. Usually the product is a work of art created by a creative director, then showcased for retailers. But we wanted to tweak that methodology. We applied the things we'd learned — to first test our hypotheses and roll out the products while tweaking and integrating and improving. Traditional fashion companies can't do that because they first have to be taken seriously by retailers. It's like throwing spaghetti against the wall and seeing what sticks. Investors liked that we planned to launch with a focused set of products.

What proved to be the biggest challenges in trying a direct-to-consumer approach?

Wen: You have to figure out distribution and get word out to customers, and we had to learn a lot of tactical things to make that happen. We learned how to do guerrilla marketing, how to set up a shipping and fulfillment center, what times of day they shop, and how to tell our story in ways that will get customers excited about us. Now it's about managing demand. We've grown a lot faster and bigger than anticipated and have really been working on getting products from Italy. A lot of direct-to-consumer companies worry about how to identify and acquire customers. For us, we know exactly who our customers are and how to reach them, so it's much more about keeping up with the demand.

You've said testing and iteration were critical. Why?

Chung: You need a direct relationship with your customers, so we took a feedback-oriented approach. For example, on our website we noticed a lot of people purchase our bags as gifts. So we added complimentary gift wrap. Those types of insights come because we're close to our customers.

Can you give specific examples of how you applied the lean startup approach when you created the company?

Chung: We had a stealth beta site up three months before we launched and had about a thousand people signed up for that to give us feedback before our actual launch. We did many rounds of prototyping, testing everything from materials and designs to price points and imagery. We're also scrappy, especially in the beginning when we worked out of my house and garage. In some ways we looked like a traditional Stanford or Silicon Valley startup.

How do you prioritize when you have limited resources?

Wen: I force myself to come up with three

Photograph by Gabriela Hasbun

CORAL CHUNG AND WENDY WEN
"We took a feedback-oriented approach."

things we need to achieve as a company for the year, then break that down to monthly, weekly, and daily goals. What three things do I *need* to get done? That forces you to make tradeoffs, to decide what we can let slip through the cracks. Learning what to let go of — that's critical.
Chung: We remain lean. We're not doing crazy expensive marketing campaigns, or big fashion shows. We make every dollar count.

What do you know now that you wish you'd known when you started?
Wen: I always needed A-plus grades to feel good about myself, so dealing with the inevitable downs of entrepreneurship is hard. If you let daily events determine your happiness, then you're going to be unhappy a lot of the time. So I've learned to step back and see the full trajectory and remember to stay focused on the long term. It's a marathon, not a sprint.
Chung: You've got to be ready for curveballs. Shipments are delayed or lost, people can be challenging to manage, and random things just happen. Stress becomes part of your life. If you want a job separate from your core identity, then maybe entrepreneurship isn't the right thing for you.

Any particular books you found influential?
Wen: *Steve Jobs*, by Walter Isaacson, about how Apple brought design to the world of technology, which used to be all functionality, functionality, functionality. Apple made tech a piece of art. That resonated with me because we want to bring functionality and technology to the world of art, design, and luxury.
Chung: We both loved *Elon Musk: Tesla, SpaceX, and the Quest for a Fantastic Future*, by Ashlee Vance. And *Shoe Dog*, by Nike's Phil Knight. Knight was just so incredibly determined and had so many setbacks, his story convinced me I could do this. ∆

Coral Chung and Wendy Wen both earned MBAs at Stanford GSB, Chung in 2011 and Wen in 2015.

BIAS

Can Internships Close the Gender Pay Gap?

A professor finds answers to wage disparity by examining the ground zero of careers.

BY DYLAN WALSH

Just decades ago, few women pursued MBAs. Today, in some schools, women make up almost half of those earning management credentials. Nonetheless, it has been widely reported that men graduating with an MBA degree earn up to a five-figure premium in starting salary over women graduating with the same degree. Why is this the case?

Is it because women and men choose different aspects of managerial careers? Different industries or companies? Different jobs? What causes this gap? "It's not unequivocal," says Adina Sterling, an assistant professor of organizational behavior at Stanford Graduate School of Business. "In thinking about this problem, internships were a nice setting to look for one possible answer."

Adina Sterling is an assistant professor of organizational behavior and the Shanahan Family Faculty Scholar for 2017–2018 at Stanford GSB.

Illustration by Jeannie Phan

With Roberto Fernandez at MIT, Sterling analyzed salary data from two consecutive business school classes: what they earned before school, what they earned during a summer internship, and what they earned after graduation. The researchers split this information along gender lines and, critically, compared the arcs of men and women who went on to work for the companies where they interned against those who worked at a different company. The researchers also collected detailed information on their GMAT scores, grade point averages, chosen industries, and job functions, along with aspects of their careers prior to the MBA, like salaries and years of work experience.

"Lo and behold, we find some evidence that internships have a leveling effect on initial managerial salaries," says Sterling.

> **"The more information people have, the more they are willing to depart from stereotypical beliefs."**

A CLEVER TEST TO REVEAL EMPLOYER BIAS

A simple logic underpinned the study and its findings. "If the way employers are assessing the value of people is accurate at the point of hire, then there should be no difference in the relative salaries they set for men and women after a period of observation," says Sterling. If companies have an accurate, quality-based reason to reward men more than women, then the gender gap shouldn't change after watching interns perform for several weeks. "But if, after observation, there are adjustments for one group more than another, then perhaps companies are relying on stereotypes or biased thinking when they hire outside of internships."

Adjustments are exactly what Sterling and Fernandez found. (Sterling added that they could not and do not measure stereotypes or bias in the study; but they do observe behaviors that would be consistent with the notion that the salaries of female managers are discounted relative to male managers in the absence of direct information.)

Prior to business school, women and men made, respectively, $68,685 and $75,560 annually. During their internships, women and men earned annualized salaries of $76,272 and $83,676, respectively. After graduation, women received offers of $100,649 on average next to men's $108,364. However, women and men who worked for companies where they held internships received offers of $108,600 and $108,196, respectively, meaning women earned $400 more on average (though not a statistical difference).

And while Sterling and Fernandez were not able to provide a definitive explanation for this leveling effect, they marshal evidence that internships serve as tryouts in a number of ways. They find evidence that these tryouts help companies make more informed appraisals of candidates and, therefore, more informed salary offers.

"Our minds make quick judgments all day long; in milliseconds we assess people," Sterling says. "But social psychological evidence suggests what tends to happen is that the more information people have, the more they are willing to depart from stereotypical beliefs and update their opinions." In the context of employee hires, internships provide this information.

THE PROMISE, AND LIMITS, OF INTERNSHIPS

Fortunately, implicit in the diagnosis of the problem — employers may be biased in their salary offers — sits a solution: Offering paid internships that channel interns toward full-time managerial positions can help close the gender wage gap. Importantly, narrowing this gap just as people are launching their careers provides long-term benefits. "If you're first hired at a lower salary," says Sterling, "then that figure can follow you over a lifetime."

And while internships present a possible solution to reducing the gender wage gap, Sterling called for more research on the issue and emphasized that internships likely must be paid, otherwise they would heighten economic inequities in the employment marketplace. She also indicated two key limits to the findings. First, she and Fernandez studied a relatively rarefied population: MBA students — a setting in which 97% of individuals held internships. Outside of this context, how often are internship opportunities available? And second, if they are available, is there bias in the broader market that sorts prospective interns by gender? "Our findings are a moot point if there is some screening process in an earlier stage," Sterling says.

These limitations aside, the main results both spotlight possible bias in the marketplace and offer a path around this bias. "If you can get people in the door and give employers time to assess them, then this study suggests it's likely you're going to see some differences in outcomes," Sterling says. ∆

Organizations

Jorge Colombo

"It would be great if business leaders could

shift from top-down command

to a position in which everyone has a say."

— **Lindred L. Greer** PAGE 36

MANAGEMENT

When Hiring, Consider Adaptability as Much as “Cultural Fit”

A new worker’s ability to recognize standards and shift behavior is an indicator of future success.

BY DYLAN WALSH

HERD EFFECT Those who adapt well often do better than those who fit right in.

Stuart Clarke/REX/Shutterstock

In 2013, Sheryl Sandberg made reference to what "may well be the most important document ever to come out of [Silicon] Valley." It was not a printout of revolutionary code, not a contract outlining the merger of two giants, not even something related to Facebook, where she is the chief operating officer. Sandberg was referring instead to an unadorned deck of 127 PowerPoint slides, titled "Netflix Culture: Freedom & Responsibility."

Organizational culture is increasingly seen as a key contributor to a company's success: Leaders should articulate the cultural principles that define their work, then use this vision to guide actions. And often placed at the vanguard of building and maintaining culture are those doing the hiring. It's up to them to find like minds.

"Both academics and practitioners have long thought of cultural matching as a process that should happen at the point of entry — some people fit, some don't, and both employers and employees should look for matches," says Amir Goldberg, an associate professor of organizational behavior at Stanford GSB. "But our research suggests another ingredient, or dimension, that's overlooked."

And that, he says, is adaptability.

Amir Goldberg is an associate professor of organizational behavior at Stanford GSB.

CONSIDER FLEXIBILITY OVER FIT

People display not only varying degrees of cultural fit, but also varying degrees of adaptability, and this second feature, Goldberg argues, is one that companies should probe more deeply.

In a new working paper, he and three coauthors — Sameer Srivastava of the University of California, Berkeley, and Govind Manian and Christopher Potts of Stanford — gathered from a technology firm more than 10 million internal emails sent between 2009 and 2014. They used linguistic analysis to monitor cultural fit over time among employees. (Language use is intrinsically related to how individuals fit, or fail to fit, within social environments.) Individuals were measured against those with whom they had the most frequent communication.

While an employee's cultural fit at the time of entry was loosely connected with outcomes — those who fit well from the outset tended to perform well — a much more powerful predictor of success was an employee's ability to recognize and internalize standards. "We find that what predicts who will stay, who will leave, and who will be fired is not so much initial level of cultural fit as much as their trajectory, the degree to which they adapt," Goldberg says. "There are important differences between individuals insofar as they are capable of reading cultural code and shifting behaviors accordingly." The authors refer to this malleability as "enculturability."

For human resources departments, then, hiring questions should perhaps revolve around how adaptable people are as much as they do around how much their beliefs align with the company's beliefs. Have applicants lived in other countries or environments? Have they readily moved between multiple and varied work environments? Have they smoothly adapted to each of these environments?

BEYOND A RECRUITMENT SCREEN

But the value of this insight spills beyond the single act of hiring and into the realm of employee retention. Goldberg and his colleagues parsed the data on former employees to explore who went voluntarily and who was asked to leave. They found that employees who struggled with enculturation from the outset were often fired; these were classic cases of cultural mismatch. But a second group started out as mismatches, quickly learned to fit in, and then, over time, their attachment to the firm began to weaken. Ultimately, this drifting interest often led to volitional departure.

For Goldberg, this presents an opportunity. It's possible that language diagnostics — and, in the future, other tools, like observing body language or how people dress — could help leaders "keep a finger on the cultural pulse of their organization," he says. Companies invest significant sums in hiring the right people and providing orientations or "onboarding," but cultural integration often stops soon after that.

> **"There are differences between people insofar as they are capable of reading cultural code and shifting behaviors accordingly."**

"We don't currently have the right tools" to do more, he says. Engagement surveys are costly and infrequent, and, besides, people lie to themselves or misunderstand questions, and the resulting data is questionable, at best. "But can we use these linguistic tools to see which parts of the organization are functioning harmoniously or discordantly from a cultural point of view?" Goldberg wonders. "Or maybe the tools can even provide individuals clearer insight about themselves, about how they're doing with regard to the culture."

A CAUTIONARY NOTE ON AVOIDING DYSTOPIA

Goldberg's excitement over these possibilities — the potential for more effective hiring screens, the ways in which companies might monitor cultural health — is tempered by the prospect of misuse.

While his research has generated an interesting twist on conventional wisdom, it isn't definitive. "I wouldn't want the fate of someone's employment based on what is only a burgeoning research program," he says. "It's important to communicate that point because questions about hiring and firing are critical questions, and we want them to be answered fairly."

In time, he believes, this research will mature in a way that can better avoid false positives or negatives and that will valuably supplement the conventional work of recruiters and managers as they undertake employee assessments. Goldberg sees a future in which diagnostic tools that analyze language, or other expressive features, can cheaply and accurately predict a person's cultural openness. But unanswered questions, both technical and ethical, stand between today and that future.

"We want to make the running of organizations more efficient and cost-effective but without creating a *Blade Runner* kind of world," he says. ▲

MOTIVATION

The Art of the Employee Contract

Brevity, balance, and a little vagueness can actually increase productivity.

BY IAN CHIPMAN

For years, new hires at Nordstrom famously received a copy of the company's employee "handbook." It was a single 5-by-8 card that read, "Rule #1: Use best judgment in all situations. There will be no additional rules." The successful fashion retailer features regularly on the Fortune 500 list and has been consistently ranked on the magazine's list of 100 Best Companies to Work For. A mere coincidence?

While Nordstrom's full set of workplace policies were available in greater detail elsewhere, the anecdote highlights the core findings from a new set of studies published in the *Journal of Personality and Social Psychology*. The research — conducted by Eileen Chou of the University of Virginia, Nir Halevy of Stanford GSB, Adam Galinsky of Columbia University, and J. Keith Murnighan of Northwestern University — highlights how subtle changes in the language of employment contracts can have a powerful psychological effect and influence a range of key worker behaviors. In fact, designing a contract to specifically curb an employee's counterproductive behaviors can, ultimately, exacerbate those behaviors.

AIMING FOR AUTONOMY

"There seems to be a societal trend toward over-contracting," Halevy says, whether it's when signing up for a new credit card, purchasing a plane ticket, or simply using your mobile phone. A similar trend can be found in many workplaces, Halevy says, where contracts are one of the most common tools used to regulate relationships.

"From management's perspective, contracts are too often used merely as a way to exercise control over the workforce," says Halevy, a professor of organizational behavior at Stanford GSB. "But management could also use contracts to motivate employees. Our research explains how employers can achieve both ends with the same tool."

The researchers performed a series of experiments on an online labor market, where workers completed a variety of jobs after reading and agreeing to simple employment contracts. In several experiments, the researchers manipulated the wording in each work agreement and examined how those changes influenced the workers' subsequent behaviors.

In one experiment, they used exactly the same clauses across conditions, but manipulated whether the contract was perceived as more specific or less specific than comparable contracts. The manipulations were subtle. Workers assigned to the high-specificity contract received a clause that read, "You should work for exactly 4.5 min on this page. You should spend all of the time concentrating on this task." The comparable clause provided to employees assigned to the low-specificity contract read, "In total, you should work for around 4.5 min on the data entry task on this page."

Across nine different experiments, the researchers found that workers whose contracts contained more general language spent more time on their tasks, generated more original ideas, and were more likely to cooperate with others. They were also more likely to return for future work with the same employer, underscoring the durable and long-lasting nature of the effect.

But why? The researchers found that the more general contracts increased people's sense of autonomy over their work. Those findings dovetail with previous research showing that increased autonomy boosts motivation, which leads to a ripple effect of other desirable outcomes.

"Minimal changes to the wording of contracts can have important consequences," Halevy says. "Especially when it comes to behaviors that are notoriously difficult to include in contracts, such as increasing effort, task persistence, and instilling a stronger sense of autonomy, which leads to higher levels of intrinsic motivation. Reducing the specificity of contractual language can also increase creativity and cooperation."

THE BALANCING ACT

While the study suggests that making contractual language more general helps nurture a range of positive workplace behaviors, Halevy warns against taking this idea to an extreme.

"There's a two-word version of our finding that's completely wrong, which is 'specificity hurts,'" Halevy says. "Contracting is a complex phenomenon and there are tradeoffs between control and motivation, between how much you're trying to guard against risk and how much you're trying to motivate people."

From an employee's perspective, contracts provide much-needed guidance, a scaffold that supports the relationship by coordinating expectations. "People want — and need — structure. They want the protection that a contract gives them. Eliminating contracts altogether is not a viable solution."

To find that sweet spot, Halevy says, it's important to understand the difference between the types of clauses typically found in contracts. Typically, contracts contain both "control" and "coordination" clauses. "Control clauses tell you what you can and can't do at work, while coordination clauses help you align expectations," Halevy says.

The key, he says, is to remember that greater specificity can be helpful in coordination clauses by making sure both sides are on the same page, but it can backfire in control clauses by dampening an employee's feelings of autonomy. "I would encourage managers and employers to distinguish the purpose of each clause in their contract and, depending on that, make an informed decision on how specific or general it should be," Halevy says.

"The employment contract can be a very powerful tool, and one that can do a lot for you," he adds. "It's disproportionately influential because it comes very early in the relationship. Think through how to optimize your contracts to get more of what you want out of your relationships with employees." ▲

Nir Halevy is an associate professor of organizational behavior at Stanford GSB.

Illustration by Jason Ford


HANDBOOK
Volume 1

DATA

Creating Change in a Slowly Evolving Industry

"You don't always get it right the first time."

BY MARTIN J. SMITH

Many car insurance companies now offer "usage-based insurance" that gives customers a chance at better rates if they agree to install a device on their car that tells their insurer *exactly* how and when they drive. That game-changing piece of technology took a lot of guesswork out of risk management, and it often gives consumers a break on that onerous but necessary cost.

But what if an insurer could apply that idea to a company's entire fleet of vehicles and then use that data to take the guesswork out of commercial insurance as well?

This "Empowered Auto Insurance" is one of the commercial insurance products offered by Embroker, a San Francisco-based startup founded and led by **Matt Miller**, who received his MBA from Stanford GSB in 2011. The company pairs data and technology with a team of expert brokers to help small- and medium-size businesses buy insurance more intelligently.

"There are opportunities to use technology to provide or create insurance products based on data sets that we can capture," says Miller, the CEO who founded Embroker in 2015 after six years working in private equity and who now has more than 60 full-time employees. "That data can be about driving habits, or weather, or all sorts factors that could impact a business."

Miller says that's just one way his company is trying to modernize the commercial insurance industry, which "hasn't really evolved much since the independent agency model was introduced in the mid-1800s." He notes that customers who buy personal policies, such as auto and homeowner's insurance, can expect to receive (in aggregate) about 75% of premium payments back in the form of loss payouts, while businesses receive only about 55%. It's a space "overdue for improvement," Miller says.

To date, Embroker has partnered with 50 commercial carriers, including the Hartford and Travelers, and is licensed in every state. The company's fast growth is due partly to a fundamental shift in the financial technology industry. Venture capital money that once went to online lending businesses is flowing more and more to online insurance startups. The data research firm PitchBook estimates that venture capital investments in such companies rose 50% in 2016, to $1.4 billion, from the previous year.

In May 2016, investors led by Canaan Partners infused Embroker with $12.2 million in Series A funding. That's on top of the $2.2 million the company received from investors in July 2015.

Investors aren't the only ones paying attention. In July, Embroker was recognized by CB Insights, a National Science Foundation–backed research firm, as one of the 250 "most promising, private fintech companies from around the world."

You left a career in private equity to pursue this. What made you think it was worth the risk? From any objective standpoint, it's a much worse job. You get paid less, there's a lot of stress, and the risk is greater. It's a very individual decision. I'm just better suited to it. There's nothing about this entrepreneurial path that's better than any other. It's a very hard path. But my wife tells me I stand up straighter now, and I smile more.

Why do you think companies such as Embroker are attracting investment money that once went elsewhere? From an investment standpoint, it's a $300 billion market that can be improved in multiple ways. That's exciting to potential investors. It's an attractive business opportunity, not only because it's a huge market that has seen less change from technology than the lending business, but also because of the radical change the insurance industry may undergo during the next 5 or 10 years as we increase the ability to collect more data and better weigh risk.

Was there a moment when the lightbulb went on for you and you decided to pursue the commercial insurance market? Actually, there was. I've always been fascinated by the idea of being able to take intelligent risks. It's such a fundamental concept for progress. I was an investor at a private equity firm before this; specifically, I invested in one of the top-10 commercial insurance brokers and was on the board of that company. The lightbulb moment for me was when a friend asked me to help him buy insurance for his business. It was just astonishing to see how confusing it was. And I thought, if I'm on the board of this company and even I can't help him much, then commercial insurance is probably a big pain point for a lot of people. I recognized it as an opportunity.

You once said entrepreneurs sometimes are too in love with their product and don't see it from a customer's point of view. How did that affect your approach to the business? We've tried to be very customer-centric in everything we do, but particularly with product design. We're building a lot of things that didn't exist before, so we do a lot of user interviews and get as close to the customer as possible. You don't always get it right the first time, but what's the point if you're not addressing the needs of the customer? You can be in love with a design that doesn't solve their problems.

Did your background as an investor help you raise funds for the business? It definitely helps me see things from the perspective of an investor and helps me speak a certain language.

You sold Embroker's first 10 policies and have said that was valuable experience. What did you learn while out there trying to make sales? First, it's really hard. It's nothing to be taken for granted. And it's important to understand that no matter how many advantages you think you have, you have to work harder than the next guy in order to win. That became clear to me. It's also helpful to understand the details of how things get done and why. It's easy to dismiss certain aspects of a business that seem old or antiquated, but there's always nuance, always a reason why things are done that way. You need that to understand how to improve it.

Photograph by Gabriela Hasbun

MATT MILLER
"What's the point if you're not addressing the needs of the customer?"

You've said that insurance markets are "tremendously excited about the idea" of companies such as Embroker. What convinces you of that?
People are talking about it more, at very senior levels of large companies. But that said, I'm pragmatic. It'll take a long time for all these changes to catalyze. The insurance business has been around for hundreds of years with very little change. It's unrealistic to expect a seismic shift. These changes will be hugely beneficial. But it'll take time.

What do you look for in a prospective employee? Intellectual curiosity, first and foremost. Then a desire to learn and a willingness to be motivated by challenges rather than discouraged by them.

Any influential books that guide your career? I was an English major in college and spent a lot of time studying literature. One of the books close to me is the novel *2666*, by Roberto Bolaño. It's about a lot of things, but one of them is the nature of change we can create in the world, and how we measure our lives at the end of them. People often think about the option value of their lives in mistaken ways. They think, "If I had this much money, I wouldn't need to work." But I believe we all want to work. So it becomes a question: What would I use that value for, and why don't I do that now?

Did you learn anything during your time at Stanford that you still use today? I got a lot from classes like *Managing Growing Enterprises*, which at the time was taught by Irv Grousbeck, and *Interpersonal Dynamics*, which we nicknamed "Touchy Feely." That was about being more conscious about how we present ourselves during interactions with others. Management can be an extraordinarily difficult path, and we need to be proactive about getting better at it. You're not going to be naturally good at having tough conversations, for example. You need to learn by talking to people who have done it longer than you. It's a discipline we all need to work on, like any other hard skill. ∆

Matt Miller earned an MBA from Stanford GSB in 2011.

TEAMWORK

Should Hierarchy Disappear in the Workplace?

A look at when flat structures work and when someone needs to be in charge.

BY DYLAN WALSH

Defined hierarchy. Commanding leadership. These corporate ligaments secure firms in the face of threats and unify them against competition. Few beliefs are more widely held in business.

The intuition, though, is wrong. "When you look at real organizations, having a clear hierarchy within your firm actually makes people turn on each other when they face an outside threat," says Lindred L. Greer, a professor of organizational behavior at Stanford GSB. Effective teamwork against threats requires not hierarchy, but egalitarianism; not centralized power, but a culture in which all voices count.

Along with Lisanne van Bunderen of the University of Amsterdam and Daan Van Knippenberg of Drexel University, the research team teased out this finding through two complementary studies. In the first study, an experiment, teams of three students developed and pitched a consultancy project to a prospective client. Some of these teams were non-hierarchical, while members of other teams arbitrarily received titles: senior consultant, consultant, junior consultant. Likewise, some teams faced no rivals, while others were told they were competing with a rival firm for clients. The researchers found that the subset of hierarchical teams facing competition with rival firms struggled with infighting while the egalitarian teams cooperated on their work.

In their second study, they investigated a Dutch health insurance company. They provided surveys to 158 existing teams within the firm. The surveys measured the degree to which teams felt egalitarian or hierarchical and how much they perceived conflict with other teams in the company. Company managers then rated team performance. Their results corroborated the experimental findings: Hierarchical teams that felt like they were competing against other teams generally underperformed, while egalitarian teams did not. (The results are forthcoming in an article for the *Academy of Management Journal*.)

THE BENEFIT OF A COMMON FATE

"The egalitarian teams were more focused on the group because they felt like 'We're in the same boat, we have a common fate,'" says van Bunderen. "They were able to work together, while the hierarchical team members felt a need to fend for themselves, likely at the expense of others."

While this research targeted a specific theoretical gap in academic literature, the findings raise important questions for practitioners: Should hierarchy be avoided? If so, how can an organization arrange itself? How can leaders lead?

Greer emphasized the need to consider context when answering these questions. An organization that doesn't face external threat — the U.S. Department of Agriculture, for instance — should function perfectly well with a bureaucratic and hierarchical structure. In a highly competitive market, though, egalitarian tendencies may support employee cooperation and, consequently, performance.

Within single organizations, too, different departments may benefit from different structures. Sales teams generally face steady competition from companies with similar services or products. Given this, promoting an egalitarian culture in sales may reduce employee friction. Engineers, meanwhile, are more insulated from the threat posed by engineers at other companies; standard hierarchies may work well in engineering departments.

WHAT IF EVERYONE HAD EQUAL SAY?

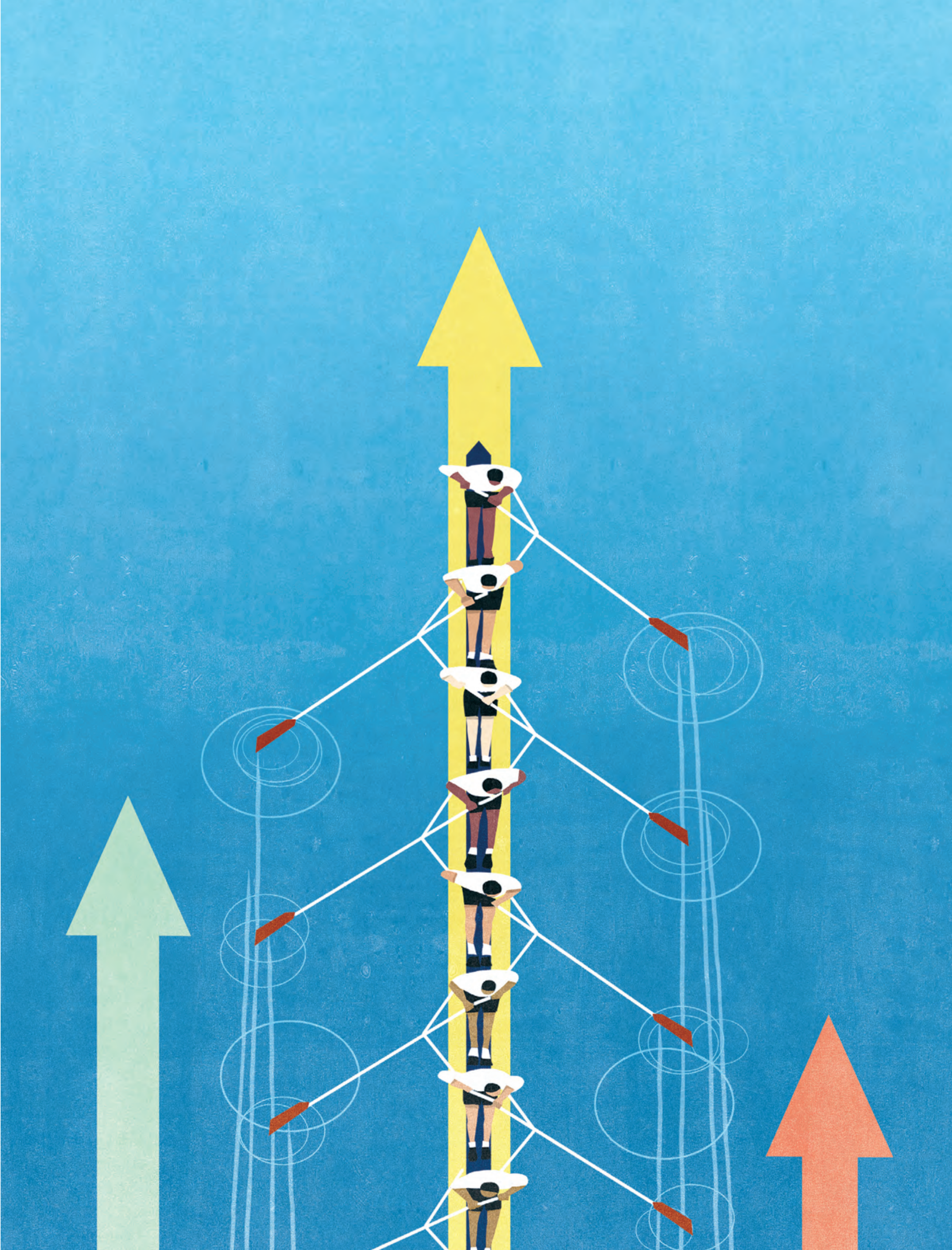
In some cases, hierarchy is an unavoidable part of the work. Greer is currently studying the interaction between surgeons and nurses, and surgeons lead by necessity. "If you took the surgeon out of the operating room, you would have some issues," she says. But surgeons' dominance in the operating room can also be problematic, creating dysfunctional power dynamics. To help solve this problem, Greer believes that the expression of hierarchy can be moderated. That is, surgeons can learn to behave in a way that's less hierarchical.

Navy SEALs exemplify this idea. Strict hierarchy dominates out in the field: When a leader says go left, they go left. But when the team returns for debrief, "they literally leave their stripes at the door," says Greer. The hierarchy disappears; nobody is a leader, nobody a follower. "They fluidly shift out of these hierarchical structures," she says. "It would be great if business leaders could do this too: Shift from top-down command to a position in which everyone has a say." Importantly, she reiterated, this kind of change is not only about keeping employees happy, but also about enhancing performance and benefiting the bottom line.

Taken together, these issues raise a fundamental question for Greer: What would it mean to wholly replace hierarchy? The small movement around Holacracy, she noted, which is designed to flatten organizations and distribute decision-making authority, has not yet demonstrated great success. "I've always said that if there were a Nobel Prize for management, it would go to the person who finds an organizational structure that's not based on vertical differentiation, on hierarchy, on leadership," she says. "Other than Holacracy there have to be ways to organize that don't imply inequality and inequity — ways to organize that are more mutually respectful and reinforcing." ∆

Lindred L. Greer is an associate professor of organizational behavior and the Younger Family Faculty Scholar for 2017-2018 at Stanford GSB.

Illustration by Shout



LEADERSHIP

How to Survive the Leap from Search Fund Investor to CEO

Trust top managers, fire bad ones quickly, nurture a strong culture, and learn to tell a good story.

BY LOUISE LEE

Years ago, Kevin Taweel, chief executive and cofounder of cellphone insurance provider Asurion, was grappling with high employee turnover and other issues in the company's round-the-clock call center. To check if the center was functioning in the wee hours, Taweel and cofounder Jim Ellis took turns dragging themselves out of bed to dial in and see if anyone answered. "I would set [the alarm clock] for 1 in the morning, Jim would set it for 2, I'd set it for 3 a.m.," says Taweel, who earned his MBA from Stanford GSB in 1992 and is now a lecturer at the school.

Taweel spoke at Stanford GSB's first Search Fund CEO Conference, a daylong event examining the challenges of leading small high-growth companies that entrepreneurs locate and acquire using the search fund model (see "A Search Fund Primer"). As searchers, Taweel and Ellis, also a GSB lecturer and 1993 MBA alum, acquired Asurion's predecessor company in 1995. Through acquisitions and international expansion, they transformed it into Asurion, which currently has 16,000 employees on five continents.

At the conference, held last fall, speakers and panelists discussed the many demands of serving as a new CEO of a small firm and explored ways to meet those challenges. The event was hosted by Stanford GSB's Center for Entrepreneurial Studies, which reports that search fund activity is on the rise. The event was attended by more than 250 chief executives, academics, directors, entrepreneurs, and investors.

BECOMING A CHIEF EXECUTIVE

Most searchers have previously worked as consultants, managers, or individual contributors, but once they identify and acquire a company, they make a major leap to CEO, speakers said. As a new CEO, you suddenly have top managers working for you, says John Stanton, chief executive of telecommunications firm Trilogy International Partners. CEOs must learn to report to board members and manage others, often in remote locations. Young CEOs also need to fight the common tendency to do work that should be done by others. Not trusting others is a common trap, says Stanton, adding that earlier in his career, "what I missed was developing people by letting them make more mistakes and turning them into partners in the business earlier."

Speakers agreed that if you're a CEO, you should build board member relationships outside of scheduled meetings. Call them when you want advice and not always when you have bad news.

New CEOs should also realize that effective management doesn't mean they must "act like a CEO" and pretend to have all the answers, says Stanford GSB management professor H. Irving Grousbeck. "Sometimes the best answer is 'I don't know; let's figure this out together,'" Grousbeck says, adding that that acknowledgment shows authenticity and humility.

HIRING, RETAINING, AND FIRING

For search fund CEOs, recruiting people for the management team is one of the biggest tasks, especially during the first year. Speakers suggested mining business and personal networks and considering people from other industries — because capable and talented hires can learn the intricacies of a new field quickly enough on the job.

A SEARCH FUND PRIMER

What is a search fund? A search fund allows relatively inexperienced entrepreneurs to find and lead an existing small, high-growth company. The entrepreneur, or "searcher," raises funding from investors, who may include friends and family, angels, business associates, and institutional search fund investors. Those investors are betting first on a searcher's ability to find a high-potential company and, secondly, to lead it.

Who are search fund candidates? Searchers are typically recent graduates of MBA programs and in their late 20s or early 30s.

How does the funding work? The initial funds pay for the entrepreneur's "search" for a small company, a process that often takes more than a year. Once the entrepreneur finds a company, he or she raises more money, some of which may come from the original investors, to acquire it. The entrepreneur, who also has an equity stake in the company, assembles a board of directors and operates the firm with an eye toward an exit event after six or so years.

Who invented the concept? The idea was conceived in 1984 by Stanford GSB professor H. Irving Grousbeck.

The burden is on executives to present the company and its opportunities effectively to candidates. For instance, Asurion's predecessor, Road Rescue, was in the unglamorous area of vehicle towing. But Taweel and Ellis recruited Gerald Risk, who earned his MBA from Stanford GSB in 1996, as chief financial officer in part by "painting a compelling vision for the company," says Risk, who ultimately joined and now serves as its vice chairman.

Speakers described their interviewing processes, which in some cases include at least one meeting in a restaurant to allow the interviewer to see the candidate's interaction with staff. Some executives include other senior-level managers in the interviewing process. David Shaw, the event's lunchtime speaker and director of Stanford's football program, adds that he has recruits spend time with team members.

Executives also emphasized the importance of background checks. One idea is to call references after hours and leave voicemail, says Andrew Saltoun, a 2008 graduate of Stanford GSB and CEO of health-benefits manager Integra Partners. Saltoun tells references that if the candidate is good, call back, and if he doesn't hear from them, he won't hire the person.

Compensation isn't the only way to retain employees, speakers said. Employees also appreciate a company's investment in them. Saltoun noted that to boost retention, he spends significant time learning about the goals and motivations of individual employees. "Retention is part of my everyday dialogue," he says.

While it's tempting to postpone or put off firing an employee who's not working out, don't give in. Dragging your feet on letting someone go isn't in anyone's interest and sends the wrong message to others, speakers said. CEOs can certainly give an employee on the way out a generous amount of notice and can help him or her find another more appropriate role.

MAINTAINING CULTURE

Speakers noted that as the top dog, the CEO promotes a company's culture, or its values, attitudes, and motivations. But the culture must be supported by everyone else, from key managers to staffers throughout the ranks. Even during the recruiting and interviewing process, a company can identify candidates by building into interviews questions that speak to the culture.

"Culture is the conglomerate of everyone" in a particular setting, and leaders establish a culture by the people they bring in, says Shaw.

A compelling story can help leaders uphold and communicate a company's culture. Stanford GSB marketing professor Jennifer Aaker says that people embrace and remember narratives — which can be rich with characters, emotions, or actions — far more than they recall facts and data. A story about the history of a particular product, for instance, can enhance a company's culture by conveying its heritage or sense of purpose and direction. Ideally, leaders can combine stories with facts and data to speak to both the "rational" and "emotional" sides of the audience.

TRANSFORMING A COMPANY

Once a company achieves success, the CEO should already be considering how it will transform to its next stage, says Mark Leslie, lecturer in management at Stanford GSB and former CEO of Veritas Software. Too many companies, especially large corporations, miss big opportunities to transform themselves, Leslie says, citing Kodak, Borders, and BlackBerry as examples. The time for top executives to think about a company's next big opportunity is during the good times, or "right when you're least likely to think about it," he says.

Leslie cites other firms, such as Oracle, that entered new lines of business or made strategic acquisitions to continually evolve over decades and find paths to growth.

Indeed, even small companies in their early stages must be willing to test and explore. Taweel recalls that even as Asurion runs its core business, it also experiments with several new potential opportunities. "You never know what exactly is going to hit," he says. ∆

H. Irving Grousbeck is the MBA Class of 1980 Adjunct Professor of Management at Stanford GSB.

Illustration by Amy Martin

BEWARE THE BLAME GAME Guilt motivates best when it's self-inflicted.

ABSENTEEISM

Feeling Guilty? That Could Be a Good Thing

When it comes to work attendance, "guilt proneness" may be a bigger factor than job satisfaction.

BY PATRICK J. KIGER

It might seem like a safe assumption that employees who like their jobs would be more likely to show up for work each day, and those who are disgruntled would be the ones more likely to hit the snooze button on their alarms and go back to sleep.

Strangely, though, research on the subject of absenteeism hasn't borne out that assumption, with meta-analyses of the link between job satisfaction and absenteeism finding only a weak negative correlation between the two factors.

"When it comes to doing something or not doing it, whether that something is personally pleasurable affects our behavior less than we might think," explains Rebecca Schaumberg, who earned her PhD in organizational behavior/business administration at Stanford Graduate School of Business and is now an assistant professor at the University of Pennsylvania's Wharton School.

Archive Timothy McCarthy/Art Resource, NY

Instead, Schaumberg and her colleague Francis J. Flynn, the Paul E. Holden Professor of Organizational Behavior at Stanford GSB, have documented the surprising power of another motivating factor — the guilt people feel when they don't fulfill someone else's expectations.

ASSESSING "GUILT PRONENESS"

In a paper ("Clarifying the Link Between Job Satisfaction and Absenteeism: The Role of Guilt Proneness") published last year in the *Journal of Applied Psychology*, Schaumberg and Flynn studied a sample of 334 customer service agents at seven different call centers for a major telecommunications company in the southwestern U.S. The subjects took an online survey in which they expressed how they felt about their jobs, and then also took a test designed to assess their "guilt proneness," or their tendency to experience negative feelings about personal wrongdoing. After that, the researchers analyzed four months' worth of the workers' attendance records, provided by the company.

Schaumberg and Flynn found that for workers who had a low degree of guilt proneness, job satisfaction was negatively related to absenteeism — that is, if they were happy with their work, they tended to show up. In contrast, job satisfaction was unrelated to absenteeism for highly guilt-prone employees.

"People who have guilt proneness show up even if they don't like their job as much," Flynn says.

That finding was bolstered by a second survey, in which Schaumberg and Flynn studied 227 workers in a range of industries from agriculture to entertainment and got similar results. In addition, the researchers also measured two other qualities — agreeableness and moral identity — and found that these traits influenced absenteeism in a fashion similar to guilt proneness. As they write in their paper, those results "further support our theorizing that the relationship between job satisfaction and absenteeism depends upon the extent to which a person is motivated by filling others' normative expectations, as opposed to fulfilling one's own immediate interests."

IT'S NOT ABOUT DISAPPOINTING A PARTICULAR PERSON

The researchers didn't try to determine who it was that the highly guilt-prone workers were so worried about not disappointing. As Schaumberg explains, that can vary from person to person and situation to situation.

"It's more the tendency to feel guilt that's important," she says. "The person will anticipate guilt for failing to fulfill the expectations of others by not doing something they should have done. But it's not a tendency to feel guilty to colleagues or family or a husband or spouse. It's generalized."

A propensity for experiencing guilt might seem like a painful psychological affliction. But as Flynn explains, it actually can be a plus in the workplace. Previous studies by Schaumberg and Flynn have found that highly guilt-prone individuals have a higher degree of commitment to organizations and are routinely rated in performance reviews as being more capable leaders than counterparts who are less prone to feeling guilty.

"Guilt is good," Flynn says. "It actually has a lot in common with positive emotions."

> **"Guilt is good. It actually has a lot in common with positive emotions."**

DISTINGUISHING GUILT FROM SHAME

Flynn says that it's important to differentiate guilt from shame, a bad feeling that's focused upon oneself as a person, rather than an act. Shame generally has detrimental effects and can cause a worker to withdraw or lash out against others. A guilt-prone person, in contrast, would strive to deal with a problem that they've caused and undo the harm to others — or avoid committing another transgression.

All of this might lead a manager to contemplate hiring job candidates based upon their degree of guilt proneness. Flynn says that a reliable guilt proneness assessment tool for business use hasn't yet been developed, "though I know some companies are keen on figuring it out."

But Flynn cautions against trying to alter workers' existing tendencies in an effort to make them feel more guilt. "Clearly, we want to get a handle upon who these highly guilt-prone people are, because they're outstanding employees," he says. "But we don't want to try creating them from scratch." Trying to make employees feel guilty about missing work could backfire and trigger reactance, in which they resist the manipulation. "People don't like having a guilt trip placed on them," he observes.

Instead, Schaumberg hopes that the insights from the research eventually will lead to managers being more cognizant of the psychological diversity of individuals in their workforce. "If we better understand a person's qualities, we can better create an environment in which the person can thrive," she says.

Francis J. Flynn is the Paul E. Holden Professor of Organizational Behavior at Stanford GSB.

PRODUCTIVITY

When the Economy Tanks, Employee Innovation Goes With It

Workers who worry about declining household wealth are less likely to explore fresh ideas.

BY MATT VILLANO

It's no secret that economic insecurity can wreak havoc on a person's bank account, household wealth, and state of mind. But a recent study concludes that uncertainty in the economy can leave in its wake another victim: innovation among lower-level employees at technology companies.

The working paper ("Does Economic Insecurity Affect Employee Innovation?") by professors Shai Bernstein and Timothy McQuade at Stanford Graduate School of Business — together with Richard Townsend at the University of California, San Diego — also finds that the effects of an economic slump are more pronounced among employees who had little equity in their homes before the crisis began and therefore fewer buffers to help weather the economic storm and avoid mortgage default.

"It was eye-opening to explore the effects of widespread disruptions in the housing market," Bernstein says. "When confidence in household wealth collapsed, creativity suffered as well."

Shai Bernstein is an associate professor of finance and Timothy McQuade is an assistant professor of finance at Stanford GSB.

Photograph by Matt Edge

TIMOTHY MCQUADE AND SHAI BERNSTEIN “There’s much more to understand about the effects of a downturn on employee productivity.”

To compile data, researchers compared employees who worked at the same firm and lived in the same metropolitan area but experienced different housing wealth declines during the 2008 financial crisis. Employees who experienced significant declines in house values subsequently pursued less innovative projects.

Bernstein says that the most likely explanation of the change in employee behavior during the disruption of the housing market is the possibility of mortgage default. The more employees were worried, the less likely they were to successfully pursue innovative projects at work, particularly projects that could be described as high-impact, exploratory, or complex.

"If the value of your house declines and it pushes you closer to defaulting on your mortgage, the last thing you would want is to experience job loss," he says. "We find that most employees who found themselves in this situation didn't push to innovate but instead backed off from risks, spending more energy focusing and concentrating on the immediate tasks at hand."

DOES WEALTH BREED COMPLACENCY?

Interestingly, the authors also found that run-ups in housing prices before the 2008 financial crisis did not affect employee innovation.

Bernstein says he expected to discover that if employees are becoming wealthier, they might take more risks and become more innovative. In reality, data indicate wealth fluctuations only impacted employee innovation and productivity during economic downturns, suggesting that perhaps employees get complacent when things go well.

"You would think employees would have become more innovative when they were wealthier, willing to take more risks," he says of the boom cycle before the financial crisis hit. "Still, during the good times, housing wealth had no effect on productivity at all."

THE LINK BETWEEN PATENTS AND HOME EQUITY

Bernstein and his colleagues measured innovation through the number of patents a company obtained and the number of citations each patent received.

The more citations a patent receives, the greater the number of future innovations and new technologies that rely on it. When inventors in the tech industry file for patents, they list the names of the employees who worked on the project. These names become part of the patents themselves, recorded forever. Thus, oft-cited patents not only have the greatest economic value to a company, but also can help identify which employees are generating the greatest amount of innovation.

By looking at patents, then, Bernstein and the other researchers were able to gauge the frequency with which certain employees were cited. Those who experienced declines in housing wealth appeared on fewer patents or did not appear on any patents at all.

What's more, employees who experienced declines in housing wealth and did appear on patents appeared on patents with lower economic value — those that weren't cited frequently. Bernstein explained that these patents likely represented incremental advances instead of high-impact innovations that revolutionized a product.

"Breakthrough patents are likely to be cited by a broad range of technologies because they're so important and they innovate significantly," he says. "Less-cited patents just aren't as big of a deal — they're more incremental."

Researchers also noted that their study offers a new perspective on the organization of creativity. Previously, experts have postulated that top executives set the innovation policies of a firm. But the fact that household wealth shocks affecting low-level employees led to a change in projects pursued, Bernstein says, makes a strong argument that an important part of innovation in the tech industry happens from the bottom up, and not only from the top down.

TAKING PREEMPTIVE MEASURES

Perhaps the biggest takeaway from this research is the simplest observation of all: Periods of financial crisis are stressful for lower-level employees, and the combination of heightened job insecurity and financial instability on the household level can be challenging in many ways.

> **"If you're close to defaulting on your mortgage, the last thing you would want is to experience job loss."**

Bernstein and his colleagues likened the scenario to employees feeling "squeezed" on both sides — a mental state that creates anxiety and distress and hampers a worker's ability to focus on long-term innovation.

To counterbalance this scenario, companies may consider creating assistance programs to help vulnerable employees navigate challenging financial times.

Researchers also contemplated how to extrapolate their findings to other sectors of the economy and to other potential impacts of economic insecurity. Bernstein notes that economic instability may affect mental health problems and anxiety — two conditions that can bring productivity to a halt.

"There's much more to understand about the effects of a downturn on employee productivity," he says. "Ultimately, we view that as a first step that may help companies prepare for economic downturns preemptively, before they become problems in the first place." ∆

World

"You can, through a law, get a

dramatic improvement in health.

And unlike poverty, that's something uniquely changeable."

— **Jens Hainmueller** PAGE 46

Jorge Colombo

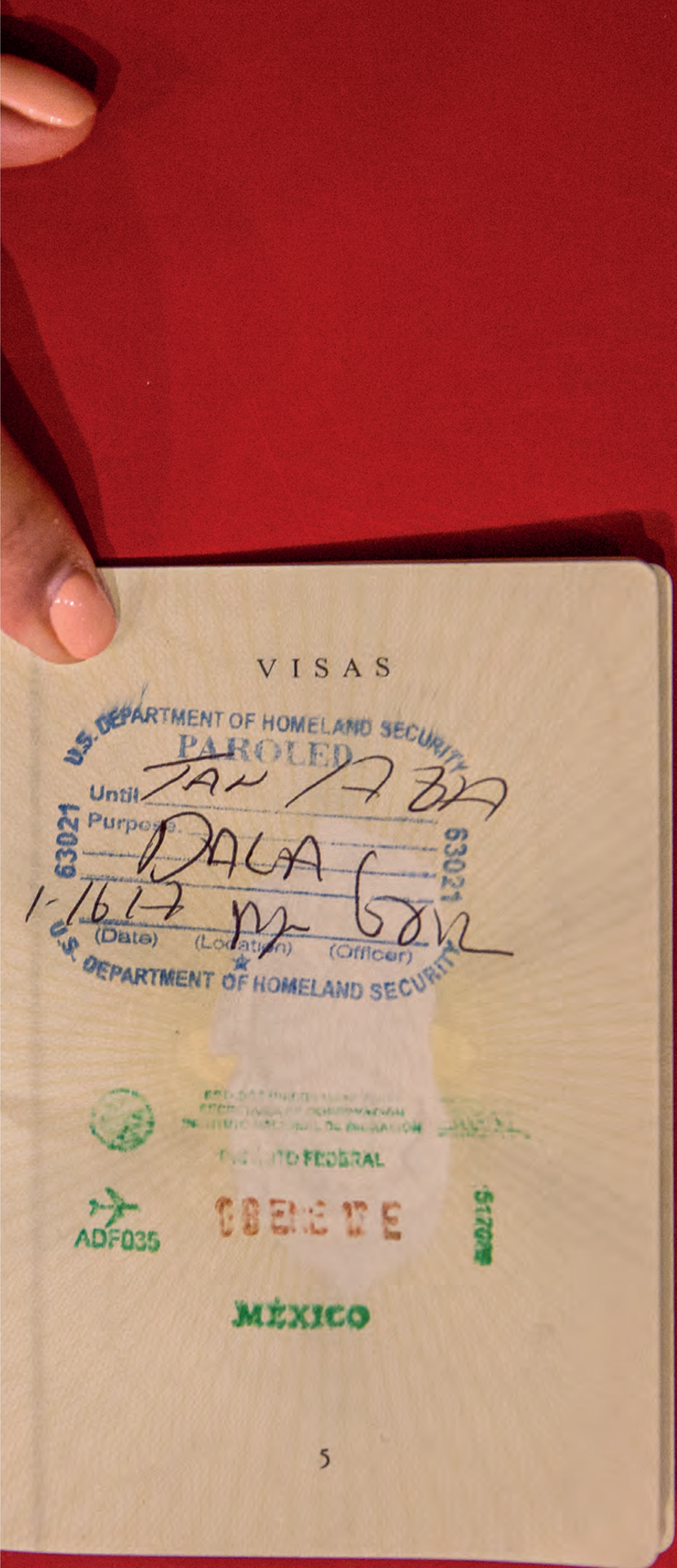
ANXIETY RELIEF
A DACA beneficiary's passport stamp.

IMMIGRATION

Quantifying the Stress Felt by Children of "Dreamers"

An analysis of medical data shows that DACA significantly reduced anxiety disorders among immigrant families.

BY MARY DUAN



Victor J. Blue/*The New York Times*/Redux

Children of undocumented parents face high levels of anxiety, a natural result of living with the fear and uncertainty that a parent could be targeted for deportation, swept up by Immigration and Customs Enforcement, and sent back to his or her country of origin. Lack of documentation causes many such families to live in the shadows, attempting to stay off government radar while remaining in the United States.

A team of researchers led by the Stanford Immigration Policy Lab set out to examine if some measure of protection for undocumented mothers could result in less anxiety — and lessen the need for mental health treatment — for their children. Their research, published last year in *Science*, shows that U.S.–born children of mothers protected by the Deferred Action for Childhood Arrivals (DACA) program suffer from lower rates of anxiety and adjustment disorders when compared with U.S.–born children of undocumented mothers not protected by DACA.

At press time, it remains uncertain whether President Trump and Congress will rescind or retain DACA, the program enacted in 2012 that allows some people (commonly known as "dreamers") who entered the U.S. illegally as minors to receive renewable two-year periods of deferred action from deportation and eligibility for a work permit. DACA has protected nearly 800,000 undocumented immigrants brought here as children. But researchers hope policymakers will use a broader calculus in future decision making and take into account the positive impacts DACA has on recipients' families — and the negative impacts that could result from wholesale deportation.

The study was coauthored by Stanford GSB professor Jens Hainmueller, who's also codirector of the Stanford Immigration Policy Lab. Hainmueller says the research team was motivated by the lack of evidence that exists on the undocumented population in the U.S. They chose to examine DACA, he says, because it's the most significant immigration policy of the last two decades.

STRONG OPINIONS, WEAK EVIDENCE

"There are a lot of beliefs about policies but not a lot of evidence on how policies impact the undocumented and the communities in which they live," Hainmueller says. Moreover, little has been written about how DACA protections impact a recipient's family, with most research and policy focusing instead on the individual recipients, including studies that show DACA recipients have higher rates of employment and improved health outcomes.

"We decided to look at whether there were spillovers on the protections of parents into the lives of their kids. That was the motivation — there had been no research on the intergenerational effects of DACA," Hainmueller says.

Study coauthor Fernando Mendoza, a professor of pediatrics at Stanford, points to the loss of a parent, whether by death, divorce, or deportation, as one of the greatest stresses of children.

"However, in the case of deportation, the level of stress is heightened by the uncertainty of the event. Think about a young child going to school one day and returning home and not finding their mother. Or having the father leave in the morning, and always thinking, 'Will this be the last time I see him?'" Mendoza says. "This is the current status of 4 million children who have one undocumented parent. This is the stress and uncertainty that DACA was able to relieve."

> **"Think about a young child going to school one day and returning home and not finding their mother."**

DIGGING INTO THE DATA

The research team used claims data from Oregon's Emergency Medicaid program, which is heavily used by undocumented immigrant mothers. The data on births spanned 2003–2015; because the children were born in Oregon, and thus are U.S. citizens, those children became eligible for traditional Medicaid.

In all, they identified 5,563 mothers born between 1980 and 1982 who were covered by Emergency Medicaid and gave birth to 8,424 children during the 13-year study period. Then they tracked the children's mental health outcomes using their Medicaid claims.

Researchers further narrowed in on adjustment and anxiety disorders, based on the idea that children may be stressed by the uncertainty of their parents' immigration status.

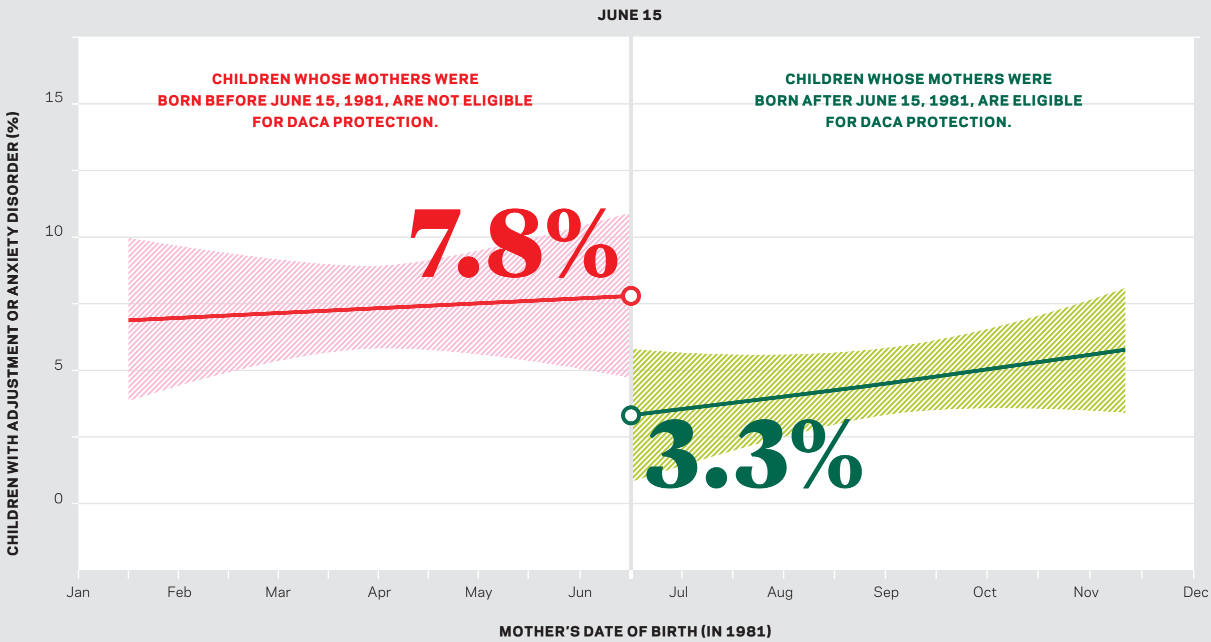
What they found is that mothers' DACA eligibility significantly decreased adjustment and anxiety disorder diagnoses among their children and that parents' unauthorized status is a significant barrier to normal child development and perpetuates health inequalities.

BY THE NUMBERS

How DACA Reduced Anxiety Among Immigrant Children

Using data from Oregon's Emergency Medicaid program, researchers narrowed in on more than 5,600 mothers born just before and just after the cutoff date for DACA eligibility. Before DACA was introduced, the children of these mothers were diagnosed with anxiety disorders at roughly the same rate. After DACA, a gulf immediately opened between the two groups: Among those whose mothers were eligible for DACA, the rate dropped by more than half, from 7.8% to 3.3%.

A MENTAL HEALTH FAULT LINE



"We found that before DACA was implemented, the rates of mental health diagnosis were exactly the same; but in the post-DACA period, mothers started to benefit from protection and the rates of adjustment and anxiety disorders dropped by half," Hainmueller says.

"When you consider the social determinants of mental health, there are a lot of things that are hard to change, but here we have an instance of a dramatic improvement in the mental health of those kids. You can, through a law, get a dramatic improvement in health. And unlike poverty, that's something uniquely changeable," he says.

But just as a law helped change mental health outcomes for kids in this study in a positive way, so too can an absence or reversal of the law change outcomes in a negative way.

"If it were to be reversed, those gains would quickly evaporate and maybe reverse and these parents would be back in the shadows," Hainmueller says.

NEXT STEPS

The researchers are trying to obtain similar mental health data of children of DACA recipients in California and New York. Also, as a follow-up to the Oregon research, the team has an ongoing effort to interview families impacted by DACA. So far, they've completed 25 interviews.

"One of the things the study can't do, with quantitative data, is determine what's leading to the dramatic improvement we see," Hainmueller says. "We don't know if it's job security or reduced stress because there's less anxiety, but hopefully that will come out in more qualitative interviews."

The research results imply that expanding deferred action to the millions of unauthorized immigrant parents who do not meet the current DACA eligibility criteria could further promote the health and well-being of this next generation of American citizens. The study states that it's also reasonable to expect that permanent legal status or a pathway to citizenship would have an equal, if not greater, effect in improving children's health. ▲

Jens Hainmueller is a professor of political economy (by courtesy) at Stanford GSB and co-director of the Stanford Immigration Policy Lab.

INVESTING

Chamath Palihapitiya: A Small Number of Men Are Running the World

The former Facebooker takes on social media, Silicon Valley.

BY BILL SNYDER

Chamath Palihapitiya says he never logs into Facebook, and he calls venture capitalists "soulless cowards." Yet he's held high-level positions at the social network and is the founder of Social Capital, a venture capital firm focused on social-impact startups. A man of outspoken, sometimes profane, opinions, he rejects Silicon Valley's conventional wisdom about "failing fast" and inveighs against short-term profit seeking. Money may be an evil, he said during a recent View from the Top appearance at Stanford GSB, but he urged students to "get the money, and don't lose your moral compass when you do."

This past fall, he pioneered the IPO-by-acquisition model, raising $600 million to acquire a still unselected company and then take it public. He also unveiled the Capital as a Service platform, which allows startups to submit an online application and receive up to $250,000 without a face-to-face meeting.

Despite his innovations, Palihapitiya downplayed his creativity during a View from the Top appearance in early November. Urging his audience to "be good copiers," he said, "A lot of my life, quite honestly, is just copying things that I see. There's not a lot of original thought here." Here are some of his insights on socially conscious investing and where Silicon Valley gets it wrong.

YOU CAN'T EAT IRR

IRR, or internal rate of return, is a standard metric used to determine the profitability of an investment. But IRR tends to focus attention on short-term gains, not long-term success, says Palihapitiya. "When you unpack it, what you realize is that fast-money returns can completely decay long-term thinking and sound judgment. Moderate growth, moderate compounding, that is the key. That is gold."

"FAIL FAST" FAILS SERIOUS PROJECTS

"Fail fast" has become the conventional wisdom of Silicon Valley. And when it comes to consumer businesses and apps, that makes sense, says Palihapitiya. Consumer internet businesses like Facebook are about exploiting psychology, and businesses need to fail fast to keep pace with the shifting tastes and desires of consumers. But that formula doesn't work for "anything that really matters," he says. "It is not how you solve diabetes. It is not how you use precision medicine to cure cancer. It is not how you educate broad swaths of the world's population."

CHAMATH PALIHAPITIYA "Fast-money returns decay sound judgment."

MONEY IS AN INSTRUMENT OF CHANGE

It may be fashionable in liberal circles to scorn money, but "it drives the world for better or for worse," says Palihapitiya. Money is going to be made, and you should go out and make it. Then you should use that money to reflect your point of view, he says. "You have a very unique worldview that matters. In the absence of capital, you're irrelevant; with capital, you're powerful."

LUCK, NOT GENIUS, DRIVES VENTURE CAPITAL

Repeatedly picking winners may be a proof of genius. But if it is, the venture capital community fails that test, says Palihapitiya. He argues that there's a very small overlap in the venture firms that made early investments in the largest successful startups. In other words, venture firms tended not to pick multiple winners when it came to startups worth more than $50 billion. "If anybody looks at you and tells you they know what they're doing, they're lying," he says.

BEWARE SOCIAL MEDIA

Palihapitiya was vice president of growth at Facebook from 2007 to 2011, where he helped the company add 650 million users. But he doesn't use the platform today and credits social media for many social ills. "The short-term, dopamine-driven feedback loops that we have created are destroying how society works: no civil discourse, no cooperation, misinformation, mistruth," he says. "It is eroding the core foundations of how people behave between each other. I don't have a good solution. My solution is I just don't use these tools anymore."

150 PEOPLE ARE RUNNING THE WORLD — JOIN THEM

Like it or not, a very small number of men — and they're all men — are running the world, and they are not the tech entrepreneurs, says Palihapitiya. Since tearing that oligarchy apart is not likely to happen, Palihapitiya says he wants a seat at that table. "My entire goal now is that. It's to be in a position to aggregate enough of the capital of the world to then reallocate it [in line with] my worldview."

American culture, says Palihapitiya, places a premium on know-it-alls. But people who respond to a difficult question by saying "I don't know" are demonstrating "a self-awareness and confidence that I think is increasingly rare. It's a really powerful thing to say."

Chamath Palihapitiya is the former vice president for user growth at Facebook and the founder and CEO of Social Capital.

Timothy Archibald

ETHICS

No Soul in the Machine

Big tech's big problem is that its designers focus on computational efficiency at the expense of societal considerations.

BY PATRICK J. KIGER

In his new book *World Without Mind: The Existential Threat of Big Tech*, journalist Franklin Foer paints a deeply disturbing portrait of an age in which a handful of giant technology companies — Google, Apple, Facebook, and Amazon (aka GAFA) — exert extraordinary control over an information-based economy with their power to disrupt business models and decimate industries by siphoning off revenue.

Even more alarmingly, Foer writes, big tech increasingly influences not just what we know, but also how we think and what we do, by gathering vast quantities of our personal data and utilizing artificial intelligence to continually prod us to consume. In the process, Foer charges, they've created a world in which people are continually being observed and distracted. "The tech companies are destroying something precious, which is the possibility of contemplation," he writes.

A former editor of *The New Republic* and now a staff writer for *The Atlantic*, Foer was a recent visiting speaker at Stanford GSB's Corporations and Society Program. We asked him to talk further about what's wrong with the world created by big tech — and how to fix it.

You published your book 50 years after Vance Packard's *The Hidden Persuaders*, which similarly exposed how advertisers and marketers were misusing behavioral psychology to manipulate consumers in the analog age. Are we simply seeing the same problem today but with better tools? The crucial change is data. The ability to get inside our heads and therefore the ability to manipulate us is so much more invasive and intense than it was in the 1950s. It's personalized and deeply exploitative of anxiety. And we're with these technologies all the time. You might have turned off your TV, but your phone is always by your side.

In your book, you note that Silicon Valley always has been driven by a contradiction. It offers breakthroughs that promise to be liberating for individuals but end

Franklin Foer is a staff writer for *The Atlantic* magazine and author of the book *World Without Mind: The Existential Threat of Big Tech*.

Illustration by Jon Han

up serving monopolism. The internet has the possibility of being as democratic as promised, and it comes with this dream of tying everybody together as one unit. But that impulse ultimately is what points it toward monopoly and conformism. Not inevitably, but it points in that direction.

You write that the tech giants' concentration of power serves to "squash diversity of opinion and taste." Will that ultimately stifle the sort of innovation that led to their rise? No, because these companies spend so much on R&D and their machines are always teaching themselves new things. But I think it kind of squashes innovation in the economy as a whole. Capital flows to a bunch of well-established companies as opposed to being seeded throughout the economy, where it would disperse innovation to a whole bunch of new firms. It's not healthy for an economy to have so much control concentrated in a few companies.

The problem is the way these giant tech companies exert control over markets, which can be bad for consumers and bad for the firms that depend upon these platforms. They have the ability to pick winners and losers. And as they continue to grow, their own products will be the winners on their platforms. The instinct for Google and Amazon to award their own products the highest placement is almost irresistible. Facebook, as it produces more and more original video, will be giving that heavier weight in its algorithms. The monopolistic effects of these platforms will end up crushing the entities that depend on these platforms. We see that already with journalism, which has come to depend so heavily upon Facebook and Google.

A lot of the negative effects of technological innovation described in your book seem to be unintentional side effects. Do we need a new approach to teaching business ethics and how to use innovations more responsibly? It's a real shortcoming in the computer science curriculum and engineering curriculum more generally. Engineers and programmers are taught how to make efficient systems but rarely do they understand the human component of the systems, the ethical and political dimension of what they build. And so there's an inherently large amount of impactful decisions that these companies make. And if it's only about efficiency, they're going to be making bad human decisions.

But I'm loath to shift too much of an ethical burden onto these companies. I do want the leaders trained in ethics, but capitalism is what capitalism is. It's hard to imagine sacrificing profit for the sake of the greater good. That's where government policy comes in.

So regulation would enable these companies to keep doing what they do, but with less damage. It's gobsmacking that there is no comprehensive law in the country protecting data. That is step one: legislation creating a new regulatory body. My desire is to see a regulatory regime that reviews issues of surveillance and monopoly as intertwined and understands that surveillance is the mechanism by which monopolies protect their incumbency.

The problem is so big and pervasive that there's no single silver bullet. Regulation is a necessity, but I think cultural change among consumers is also a necessity. There needs to be comprehensive social change.

You've advocated creation of a federal data-protection agency that would not only guard consumers' privacy but also protect the free flow of information on the internet from undue corporate influence. How would that work? Europeans have pointed the way with a lot of what they've done, though there are parts of their model that I dislike. I'm not a fan of the right to be forgotten, which I think is contrary to a lot of our First Amendment beliefs. But I do think individuals should be able to exert much greater control over the use of their own data. It's not simple to set up, but we could figure it out.

Increasingly, we've seen the public losing faith in institutions and turning on them. Is such a backlash against big tech inevitable? What might trigger it? The Russian hacking of the elections is a pretty seminal event. It has caused trust in Facebook to diminish. I think that's just an early warning sign to these companies. Ultimately, big institutions fall out of favor and lose the public's trust. That's pretty much just part of the cycles of American history.

You note that 62% of Americans now get their news from social media and describe how that has wrecked the news media's economic model, creating one in which misinformation can spread virally.

> **The Russian hacking of the elections is a seminal event. It has caused trust in Facebook to diminish.**

What consequences does that have for business? It's ultimately going to become a threat to business itself, where you could see businesses spreading misinformation about rivals. When misinformation flows so easily, there's no telling where it stops. Re-establishing some common basis for fact is a business necessity as well as a political one.

Can you see corporations becoming players in this effort to restore truth? I don't know how they can do that precisely. Nobody has a good handle on how we can restore good basis for fact. But I do think that business is going to play an important role in shaping the regulatory environment. Every company that is not GAFA — be it Walmart or Microsoft or other massive players — will attempt to reassert some control over this economy. The wars over antitrust are going to be intense and they're going to cross-cut in very interesting ways. I'm especially interested in seeing how larger players who still have political muscle will maneuver. What steps does Walmart take in response to Amazon's hegemony? It's hard to imagine that they won't be aggressive at some point.

What advice do you give to people who work in the tech sector? I think tech workers need to feel that they've pushed their companies to behave in the most ethical manner. When people ask me whether they should go to work for one of the big companies, I'm always agnostic. The companies are so powerful that having smart, well-intentioned people within who think in well-rounded ways is important. But it's also important that those people not gravitate toward the center and that they continue to start up their own companies. The world needs a pluralistic marketplace. What we don't want is a concentration of brains as well as a concentration of power. ∆

REGULATION

Seeing Green in Red Tape

There's profit to be found helping companies navigate the ever-shifting global seas of government oversight.

BY MARTIN J. SMITH

Banks and other financial institutions have been confronted by an intimidating stack of new regulations in the years since the global economic meltdown of 2008. "If those new regulations were on paper, they'd be as high as the Eiffel Tower," says **John Byrne**, a 2007 graduate of a year-long Executive Education program for entrepreneurs at Stanford GSB.

But somewhere in the landslide of 54,000 regulatory documents (published by 130 different agencies in G-20 countries), Byrne found a business opportunity. He's now CEO of Corlytics Ltd., a global company, headquartered in Dublin, that calls itself "the world leader in regulatory risk impact intelligence." Byrne started the company in 2013 and focused on it full time after selling his securities software company, Information Mosaic, in 2015.

Corlytics uses analytics to understand the real meaning of each piece of regulation. Its software combs through a database of more than 7,000 cases that have been read and interpreted by the company's lawyers, risk analysts, and data scientists.

Corlytics' original staff of nine has grown to 38, and the company now has offices in Dublin, London, the U.S., and Australia. Last January, it finished a new round of investor funding that brought its total to more than $5.3 million.

You've said the biggest risk for the world's top 20 banks today is regulatory risk. Does that represent a major change? It's a huge change. Last year, there were about $100 billion in fines levied on banks for not complying with regulations. In 2008, before the big financial crisis, that was less than $1 billion. Back in 2008, compliance was a nuisance function that you kept in the back office. Its importance wasn't fully appreciated, and there'd been a complete lack of investment in it. Fifteen years ago, banks may have paid attention to the regulators, but they didn't worry about them the way they do today.

What role did that 2008 crash play in your decision to start Corlytics? I was at a financial services conference in Vienna in 2008 when Lehman Brothers filed for bankruptcy. There were 9,000 bankers there from all over the world, and what was immediately on their minds was that no major banks had failed since the previous crash in the late 1920s. Suddenly, one of the top 10 investment banks was gone, and it created a problem that no one had ever seen before. No bank was able to measure the type of exposure its clients had because of the Lehman failure. So that week started with people being bullish about banking and the markets, and it ended with people questioning everything. It was a watershed moment. That's when the G-20 states decided to globally regulate banks, to make sure they don't take on too much risk.

You were CEO of Information Mosaic, a securities software company, at the time. Was there a connection? We grew between 2008 and 2012, but I could see that the real growth was in the regulatory side. I founded Corlytics in 2013 because I could see my clients were shifting their spending toward regulatory and compliance systems. The risks of not doing so were becoming obvious. For example, in 2014 Bank of America Merrill Lynch paid more than $16 billion in fines because of mortgage-backed securities issues, and last year Deutsche Bank had to settle with the U.S. Department of Justice for $7.2 billion because of compliance violations. Those are big impacts. Since the crash, there have been 39 incidents of banks paying more than $1 billion in fines. About $250 billion was wiped off the balance sheets of the top 20 banks in the world, mostly in the U.S.

Why are you still in Ireland? We now have 38 staffers globally, with offices in both Boston and New York. We may eventually have some people based in Washington, because that's where the regulators are. But we see ourselves as a global company. We already have a presence in Australia and plan to grow our Asian presence. The company will probably shift in 2018 and become more U.S. focused.

Any specific developments that convinced you to focus your energy on Corlytics instead of Information Mosaic? In December 2012, I met with three clients who were discussing their budgets for the following year. They said they were allocating most of their IT budgets to get ready for new regs coming into force in 2013-14. For some, it was a third of their entire IT budget. I then asked two very large banks how they measure the risk of getting fined. After three months, they still couldn't tell me how many fines they'd have globally. They didn't know the value of that to their own organizations. So, I started looking into the feasibility of the regulatory risk business.

Photograph by Manuel Vazquez

JOHN BYRNE
"Noncompliance isn't an option anymore."

How big is the market for so-called regtech? If you look at the world of credit risk assessment, which is dominated by Moody's and Standard & Poor's, that's about a $10 billion market. We estimate our market at about $1.5 billion.

Any unusual startup challenges? We're trying to convert legal documents into scientific data. We use a unique combination of lawyers, data scientists, and mathematicians to look at legal events, and use modern analytics to measure the risks of a new piece of regulation.

Are most clients seeking your services to fully comply, or are they looking for ways to determine whether it might be cheaper just to pay the fines? Noncompliance isn't an option anymore, and banks are now factoring compliance into the cost of doing business. Some are even using our information to craft an exit strategy. If a bank doesn't have the expertise to put in the controls that a regulator expects, that might be a reason to get out of the business.

Corlytics was operating in the red at the end of 2015, but you predicted the company would be profitable by 2020. Are you on track? We're basically in line with where we said we'd be. Our goal is to be a leader in the field, and we're in a period of strong revenue growth for what's going to be a very big market.

Any particular books that influenced you or your career? One was *Hard Facts, Dangerous Half-Truths, and Total Nonsense: Profiting from Evidence-Based Management*, by Jeffrey Pfeffer and Robert I. Sutton. That was a huge inspiration for the logic behind this company. I believe people should make data-based decisions, and what I saw were bankers relying on lawyers' opinions rather than facts. There's no reason to bet the future of a bank on someone's opinion. ∆

John Byrne graduated from Stanford GSB's Executive Education program for entrepreneurs in 2007.

LABOR

How Automation and Shifting Expectations Are Changing Work

By 2030, about half of today's jobs will be gone.

BY LOUISE LEE

In the future, a traditional college degree will remain useful to build fundamental skills, but after graduation, workers will be expected to continue their education throughout their careers. Workers, for instance, may increasingly pursue specific job-oriented qualifications or applied credentials in incremental steps in flexible, lower-cost programs, says Jeff Maggioncalda, chief executive of online learning company Coursera.

Maggioncalda, who received his MBA from Stanford GSB in 1996, spoke at "The Future of Work," an all-day symposium held last year at Stanford's Frances C. Arrillaga Alumni Center. Speakers explored the changing workplace, new possibilities for higher education, and technology's impact on careers and industries. The event, attended by about 300 people, was presented by Stanford Career Education and OZY EDU, the education arm of online magazine OZY.

Following are some of the ideas discussed at the event, which included keynote speeches, panel discussions, and a hands-on workshop on career and life planning.

EMBRACING THE LIBERAL ARTS

Students are hesitating to major in the humanities and social sciences out of fear that those degrees will lead only to low-wage jobs, says Harry Elam, Jr., Stanford's senior vice provost for education. Yet those fields remain crucially important to industry. Companies need liberal arts students to help understand biases in data, facilitate collaboration, bring insight, provide historical perspective, and "humanize technology in a data-driven world," he says.

For instance, machines should not only function but should also optimize human welfare. What if a self-driving car needs to go faster than the speed limit to avoid an accident? Should that car be allowed to break the law? These kinds of questions of the new digital economy "all require diversity of thought, diversity of approach, and diversity of background to address these complex issues," Elam says.

Those who major in the humanities or social sciences, especially fields like philosophy and public policy, can easily develop transferable skills that employers value, says Trent Hazy, a current student at

Illustration by Carlos Arrojo

Stanford GSB and cofounder of MindSumo, a firm that connects college students with employers by inviting students to submit solutions to challenges that companies post online. Because many employers seek candidates comfortable with data and data analysis, humanities majors who also learn some quantitative skills by taking classes in, say, statistics or logic will have an advantage over those who don't, says Hazy.

LEARNING THROUGHOUT LIFE

Speakers generally agreed that the traditional brick-and-mortar college campus will remain because the face-to-face encounters in and outside the classroom are educationally and socially valuable. After graduation, though, employees will increasingly need continuing education to stay competitive, and companies recognize that, says Julia Stiglitz, vice president at Coursera who earned her Stanford MBA in 2010. Already, some large firms such as AT&T use online learning in a "massive reskilling effort" to retrain workers. "There are all of these educational opportunities that are open to anyone who has the will and desire and ability to go through it, and as a result I think we're going to see all sorts of new people come into fields they otherwise wouldn't have access to," she says.

Anant Agarwal, professor at Massachusetts Institute of Technology and chief executive of online learning firm edX, adds that workers may think of continual training and education through online classes as earning "microcredentials" that could garner credit toward a full degree at a traditional institution. Individuals could earn multiple microcredentials over years, perhaps beginning even with a "microbachelor's" in high school as a head start on an undergraduate degree, he says.

Michael Moe, cofounder of GSV Asset Management, notes that over the course of their careers, people will augment "the three Rs" of reading, writing, and arithmetic that they learned early in life with "the four Cs" of critical thinking, communication, creativity, and cultural fluency.

> **"Students are switching from living for their work and shifting more toward making a living so they can actually enjoy life."**

RESTRUCTURING ROLES AND WORKWEEKS

Research suggests that by 2030, about half of today's jobs will be gone. Speakers agreed that automation will perform many current blue-collar and white-collar jobs, while independent contractors will fill a large fraction of future positions. Robots and other automation in the short term will displace individual workers, but technology over the long term is likely to create new economic opportunity and new jobs. "While automation eats jobs, it doesn't eat work," says Moe.

Future workers' attitudes toward employment will be different from those of today's workers, forcing companies to change how they recruit and retain. In a survey of college students, respondents indicated that they highly value work-life balance and are interested in working from home one or two days a week, says Roberto Angulo, chief executive of AfterCollege, a career network for college students and recent graduates. "Students are switching from living for their work and shifting more toward making a living so they can actually enjoy life," he says.

Other shifts in demographics will force employers to rethink how they structure work and benefits. Many aging baby boomers, for instance, are remaining in the workforce past the traditional retirement age of 65 and may demand fewer hours or shorter workweeks. "There are different things people value at different ages," says Guy Berger, economist at LinkedIn.

AIMING FOR EQUITY

Companies are committing to a diverse workforce for varying motivations. Some believe that diverse teams are just "smarter and more creative," says Joelle Emerson, adjunct lecturer at Stanford GSB and founder and chief executive of diversity strategy firm Paradigm. Other firms, especially technology companies, believe that they're disproportionately responsible for designing the future and therefore it's simply wrong to leave entire communities out of their teams, Emerson says.

Overall, Emerson adds, companies must understand that the same strategies that increase diversity also boost a range of other positive outcomes as well. For instance, "When people feel like they belong at work, they perform significantly better," she says. They take fewer sick days and less time off.

Speakers cited various initiatives designed to increase inclusion, such as reacHIRE, which trains and supports women re-entering the workforce, and Stanford's Distinguished Careers Institute, which brings individuals with 20 to 30 years of career experience to campus for a year of "intergenerational connection" and learning with undergrads and graduate students. "There are so many people who are not 18- to 22-year-olds who are still interested in being alive, alert, connected, and contributing," says Kathryn Gillam, the institute's executive director.

"Diversity is a fact, inclusion is a practice, equity is a goal," says Dereca Blackmon, Stanford associate dean and director of the Diversity and First-Gen Office.

ADAPTATION

Why a Global Energy Leader Charted a New Course

Led by Isabelle Kocher, Engie experienced a "strategic epiphany" that steered it toward renewable sources.

BY IAN CHIPMAN

Surveying a swiftly shifting energy landscape in 2014, Engie, one of the world's largest energy companies, made a dramatic decision. The nearly 200-year-old French company had annual revenue of $94 billion and owned the largest natural gas pipeline in Europe, but the company's leadership saw a bellwether in the sharp drop in fossil fuel costs. This led to a "strategic epiphany" — it would rapidly shift focus toward renewable energy in both Europe and growing areas like India and China, while reducing future exploration in fossil fuels.

In 2016, Isabelle Kocher became Engie's CEO and pushed forward the company's new strategic plans, centered on the idea that the future of energy will be "decentralized, decarbonized, and digitized." At an event hosted by Stanford GSB's Sustainable Energy Initiative, Kocher outlined the three guideposts for carrying out Engie's course change, how she views the future of energy, and what it takes to steer a large, multinational company in a dramatically new direction.

A STRATEGIC SHIFT GUIDED BY THREE RULES

Kocher says the company developed three guidelines to determine how to allocate resources for this transformation, especially in the developing world.

1. **Complete dedication to the energy revolution.** The company, Kocher says, will not launch any new oil or coal projects and intends to dispose of $21 billion in assets in order to reinvest the cash into projects that promote its low-carbon, distributed-energy vision. In 2016, 81% of the company's activities were dedicated to energy efficiency and distributed energy; in 2018, the company plans to push that number to 90%.

2. **Work on different time horizons.** "We come from a world where the technologies were extremely stable, with no real change for 30 years," Kocher says. "Now we are in an environment with new evolutions, new technologies, new solutions." Kocher says the company is expanding its strategic timelines, planning for long-term growth on top of short-term returns. In fact, the company plans to invest $2.1 billion on new technologies related to energy. "You have seen the huge progress made by renewable technologies like solar. But it is just the beginning."

3. **Change your culture.** "In a decentralized world, we can't run the company from the top," Kocher says. The organizational shift involves being less hierarchical, where decisions are made upstream and implemented downstream, and more focused on finding solutions in direct contact with its customers and clients. "We have triggered a deep internal transformation program to address cultural change, behaviors, innovation, results orientation, and I'd say connectivity," Kocher says. "The first duty of our team is not to do what the boss says. It's to be extremely connected to the plants, the stakeholders."

NEVER TOO BIG TO DISRUPT

Think disruption is the sole province of startups and VC firms? Kocher says that, especially in the energy industry, that doesn't have to be the case. "Big groups can behave as disruptors," she says. "And I would say that one of the most efficient ways to really disrupt is through scale effect."

She says that a company like Engie can afford to think and invest long term: "A big organization like Engie has the means to make this energy revolution more rapid and more massive."

AN ENERGY REVOLUTION, ONE WAY OR ANOTHER

Questions around major geopolitical energy concerns — such as the withdrawal by the U.S. from the Paris Climate Agreement — may ultimately be less consequential than other inexorable forces. In the developing world, Kocher says, an appetite for energy independence is driving demand for renewable and decentralized energy solutions.

"The people who have the most to gain through this energy revolution are emerging countries," she says. "They face rapidly growing demand on energy, and they are obliged to serve this need with imported fuels. More than one billion people have no access to energy in the world. And without energy you have nothing — no health, no education. For the first time, we see ways to fuel this fundamental need in a sustainable way."

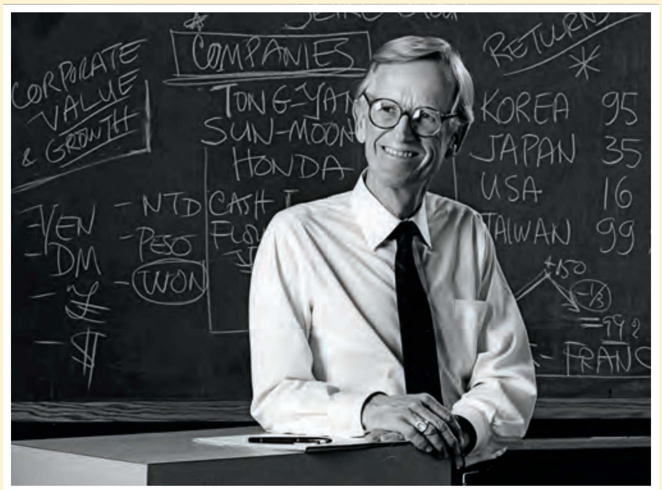
FUEL FOR CHANGE

Kocher admits that Engie's strategic overhaul has been a rocky ride. "It's not easy to transform a big organization," she says. "But everything we dreamed is possible."

Among the insights she's gained from the process is the importance of a strong vision: "I have conversations with my colleagues who say this transformation is impossible to avoid. I say, 'That's not the point. It's not that it's impossible to avoid — it's something fantastic!' The lesson I learned is that if you share a vision that is aspirational, people will bring extraordinary energy and courage to fuel it." ∆

Isabelle Kocher is the CEO of the multinational energy company Engie.

Illustration by Alvaro Dominguez



Jack McDonald: 1937–2018

Saying Goodbye to a Giant in Investment Education

John G. "Jack" McDonald, the Stanford Investors Professor of Finance who taught more than 10,000 MBA and Executive Education students over a remarkable 50-year career at Stanford GSB, died January 26 at Stanford Hospital in Palo Alto. He was 80 years old.

Known internationally for his work on investment in global equity markets, McDonald was renowned on campus for his intense devotion both to his students and the study of investing, said Jonathan Levin, Philip H. Knight Professor and Dean of Stanford Graduate School of Business. "He helped Stanford GSB graduates land jobs, start investment funds, and work through life transitions; he was a source of advice and wisdom," Levin said. "His dedication to his teaching was breathtaking. Today, his students span the globe, and the achievements and contributions of Jack's 'Investment Family' are a continuing legacy for Jack and for Stanford."

Born in 1937 in Stockton, California, McDonald received his BS in engineering with honors from Stanford in 1960 and received his MBA at Stanford in 1962. He served as a lieutenant and platoon leader in the U.S. Army's 25th Infantry Division, and then returned to Stanford, completing his PhD in 1967.

A Fulbright scholar, McDonald joined Stanford GSB as an assistant professor of finance in 1968, beginning his five-decade run. He was promoted to full professor with tenure in 1974–75. McDonald was a visiting professor at the University of Paris, Columbia University in New York City, and Harvard Business School, and from 1989 to 1990 was the first professor to serve as vice chairman of the NASD/NASDAQ. He was the author of more than 30 articles published in academic and professional journals.

McDonald was awarded his first endowed professorship in 1978. In 1987 he was appointed to the IBJ Professorship, and in 2004 he was awarded the Stanford Investors Professorship. That professorship will be renamed in McDonald's honor, as will the residential center Highland Hall and the GSB Common, all of which were funded by McDonald's friends and former students.

McDonald taught Stanford GSB's first class on private equity, *Private Equity Investing*, as well as *The Investment Seminar* and other classes in the Stanford Executive Program. But his name is synonymous with Finance 321 — *Investment Management and Entrepreneurial Finance*.

"Jack's class was the most sought-after class in preregistration and had the longest waiting list of any class in the curriculum," said George Parker, Dean Witter Distinguished Professor of Finance, Emeritus, who knew McDonald since they both arrived at Stanford GSB as students. "I think he taught more students than any single faculty member in the history of Stanford GSB."

McDonald taught fundamental investing, believing that markets are not always efficient and that discrepancies occur. Those willing to examine the true worth of an enterprise and compare it to its market price, he taught, might be able to capture the gap in value.

"His approach was to figure out how companies worked — looking at their balance sheets, income statements, working capital, cash flow, all those things, and that's how his students invest now," said his wife, Melody, who graduated from Stanford music department's doctoral program in French Baroque in 1975 and Harvard Business School's MBA program in 1986. "Many students would come in who had not been in finance before, and he helped them think about investing, all aspects of it. I've gotten many notes from those saying he changed their lives."

Students also flocked to Finance 321 for the guest speakers McDonald regularly brought in to inspire his students. Many were successful former students who would share their victories, failures, enthusiasm, and resilience with students. "These were busy people who could have spent their time elsewhere but who thought so highly of him and his work that they made it a priority to come to teach these students," said finance lecturer Stuart Klein (MBA/JD '83), a former student of McDonald's who worked with his mentor for 25 years.

Among the speakers were investing luminaries Charlie Munger, Philip Fisher, and his friend, Berkshire Hathaway chairman Warren Buffett. "I've never in the past 40-plus years met a Stanford MBA who didn't regard Jack as a giant in teaching," Buffett said. "No one who took his course ever forgot it, and they loved Jack."

The first speaker each year was Carter McClelland (MBA '73), chairman of Union Square Advisors and a former student of McDonald's. "Jack's class, and Jack himself, certainly influenced my decision to work in the world of finance," McClelland said. "He was humble, smart, witty, and personable. His students adored him and learned tons about the world of investing and finance that they could successfully carry into the world."

McDonald learned every student's name, was interested in their background, and passionately cultivated an extensive, worldwide network of former students he called his "Investors Family."

"As you hit various milestones along your career, you could always call Jack. He'd always be able to say 'Call this person,' and they'd generously share advice and insight with you," said finance lecturer John Hurley (MBA '93), who worked with McDonald. "He was more than a teacher; he was a real mentor who didn't just touch students' lives, but shaped them. As students would pass through class, they'd become part of Jack McDonald's family, with an obligation to help one another."

McDonald's networking skills were an extension of his innate interest in the lives of others, said his son, Tom. "He always took a deep, fundamental interest in people and their stories and always remembered every last detail," he said.

McDonald also supported organizations working to alleviate homelessness and assist the developmentally disabled. He enjoyed golf, walking, hiking, and spending time in his yard communing with his small grove of 20 tall redwood trees, which he loved.

"We like to joke about them being a symbol of a good value investment," Tom McDonald said. "They were only 5 feet tall when we bought them." — BETH JENSEN

(Read a longer version of this article at http://stanford.io/McDonald.*)*

R.J. Muna

EXCHANGE

SOME FINAL THOUGHTS ON CULTURE

EDITED BY JENNY LUNA

"Culture is embedded
throughout an organization, so it's not just about replacing a person or two. You've got to show you're serious [about changing] by bringing in experts."
— **David Larcker**, the James Irvin Miller Professor of Accounting, for *Insights*
http://stanford.io/2nh8hBf

"You have to be very
deliberate
about making your team. If we have a value at our company, we have to have a policy to reinforce it."
— **Selina Tobaccowala**, cofounder of Gixo, for *Insights*
http://stanford.io/2B1NarU

"Turns out, we have a
bias.
If we think 'leader,' too many of us think 'male.'"
— **Margaret Ann Neale**, Adams Distinguished Professor of Management, in the video "If Diversity Is So Important, Why Don't We Have More of It?"
http://stanford.io/2EEgw5d

"Now I know that my
unique
background and perspective are actually my biggest assets."
— **Catalina Campos**, cofounder of Greenovate Construction, at the 2018 State of Latino Entrepreneurship forum
http://stanford.io/2Hc9x1W

"If you don't define yourself as a product, if you don't protect your past, and if you try to
do the right thing
for the long term — then I think you end up in the right place."
— **Ginni Rometty**, chairman, president, and CEO of IBM, from the View from the Top speaker series
http://stanford.io/2Hb7Mli

"Managing compassionately is about putting yourself in
another person's shoes
and seeing the world through their lens or perspective."
— **Jeff Weiner**, LinkedIn CEO, from the View from the Top speaker series
http://stanford.io/2lTkpKO

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NAMES AND ORGANIZATIONS

The Takeaway

THE ESSENTIALS

FIVE LESSONS FROM OUR STORIES ON CULTURE

EDITED BY JENNY LUNA AND STEVE HAWK

Economic Uncertainty Harms Innovation

When the economy tanks and workers begin to worry about their household wealth, corporate creativity suffers.
— Shai Bernstein

Steer Clear of Workplace Jerks

Deal with office bullies the same way you'd deal with a toxic substance: avoid contact.
— Robert I. Sutton

Teams Are Most Effective When Members Have Equal Say

Especially when facing outside threats, flat structures work better than those with top-down command.
— Lindred L. Greer

Tackle Gender Inequality with Small, Daily Steps

The best way to dismantle the mindset that leads to gender bias (and breeds sexual harassment) is to do it brick by brick.
— Shelley Correll

Sometimes It's Important Not to "Act Like a CEO"

Effective management doesn't mean pretending to know everything. In some situations, the best answer is "I don't know. Let's figure this out together."
— H. Irving Grousbeck

Share these ideas on Twitter @StanfordGSB — or share them with a friend.

Illustrations by Anje Jager

THE RECOMMENDED LIST

LEARN MORE ABOUT CULTURE AND RELATED TOPICS

EDITED BY JENNY LUNA

Shelley Correll

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