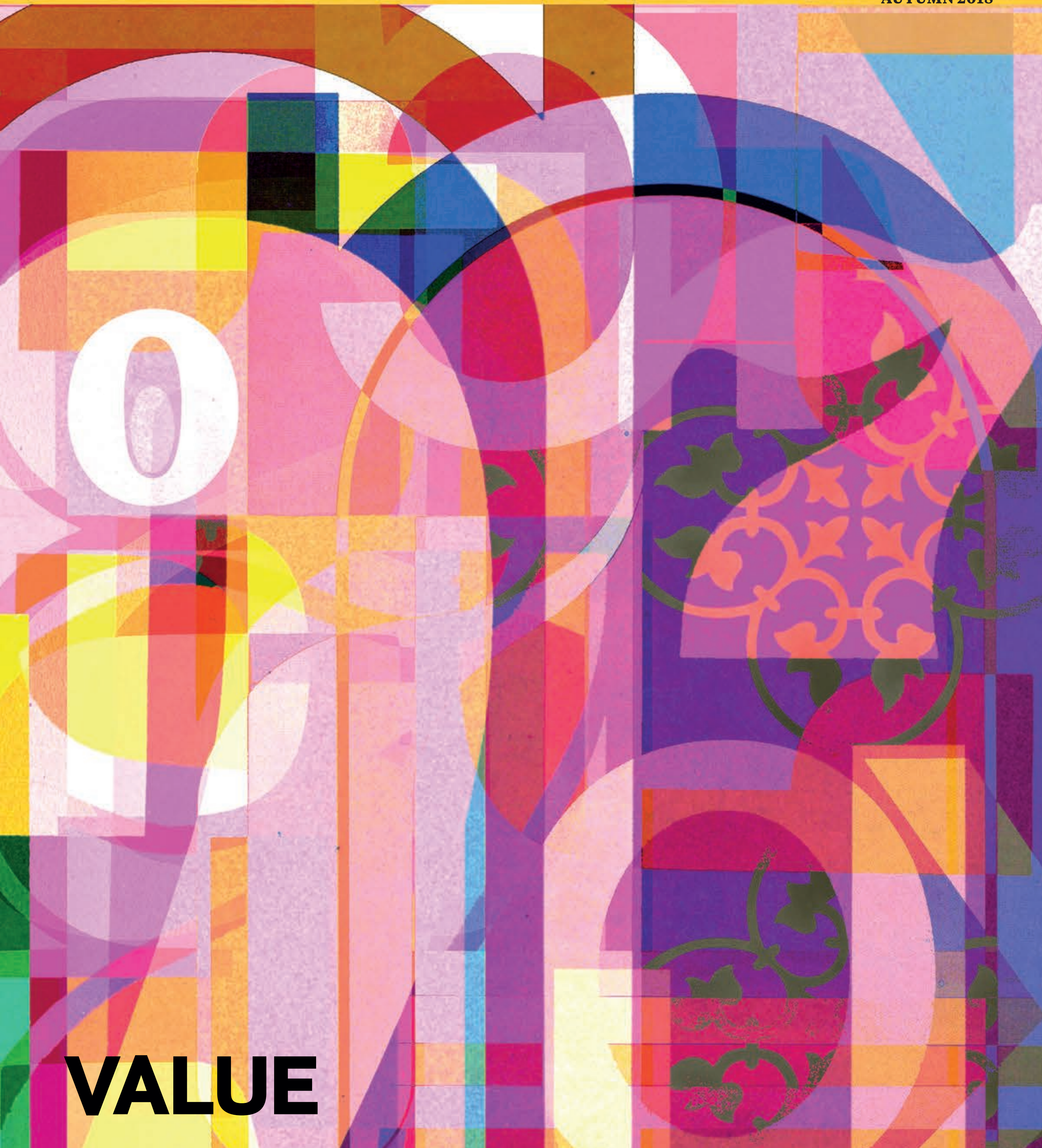
# Stanford Business

AUTUMN 2018



# VALUE

A LETTER FROM

DEAN JONATHAN LEVIN

# Continuity and Change in the MBA Class

People are the most valuable asset at Stanford GSB. It is a view that was reinforced after I spent time with so many alumni at last month's fall reunions. I was fascinated to hear what our former students have been doing since their own graduation and to learn that such a wide range of their journeys and experiences has been in some way connected to our community.

As I consider our new students, I'm excited to think about the perspectives and skills they bring to the school and how their lives will also become intertwined. This fall, we welcomed 419 students to the Stanford MBA Class of 2020. At our opening session, Assistant Dean and Director of Admissions Kirsten Moss described the class composition, inspiring me to reflect on some of the changes, and points of continuity, from class to class.

Our MBA cohort remains strategically small, ensuring an immersive, close-knit experience for Stanford GSB students. The relationships that students form with each other, with faculty and staff, and with alumni, are central to the experience. This year's students will take dozens of new courses that we have introduced in recent years and have wider access to study trips, experiential learning, and global internships, but they also will experience some of the same courses, such as *Interpersonal Dynamics, Investments, Paths to Power*, and *Managing Growing Enterprises*, that have been in high demand for decades.

This year's students come from a striking array of backgrounds. Indeed, one of the numbers Dean Moss cited at the welcome is that first-year MBA students arrived from 306 different organizations. That is just one indicator of their breadth of experience. One student is a former cancer cell researcher who became an investor and now plans to return to Lebanon to start a private equity fund. Another student is interested in social impact, cofounded the first U.S.–based sourcing enterprise for cacao, and created a global network of thousands of farmers. A third student was an Army intelligence officer who, while serving overseas, created an online brand that repurposes military surplus products, with proceeds going to support veterans.

From an industry perspective, the biggest shift over the last two decades has been the rise in students coming from technology firms. Today, students from technology firms represent 17% of the class, running a close third to finance and consulting, and up from less than 4% 20 years ago. The increase in students coming from government and nonprofits is almost as significant. These students represent 10% of this year's class, up threefold from two decades ago, perhaps reflecting a broader conception of who stands to benefit from a Stanford MBA.

Our MBA students today have also become more global and more demographically diverse. Twenty years ago, around a quarter of the class was international and 30% was female. Today, both numbers are over 40%. Indeed, Dean Moss pointed out that this year's class speaks dozens of languages, so living in Schwab or McDonald Hall presents an ideal opportunity to pick up a new language!

The composition and careers of our graduates also have evolved. Twenty years ago, 43% of our graduates joined consulting and investment banking firms, about the same percentage that came from those firms. Today, the fraction of students going to consulting firms has declined from 30% to just under 20%, and only 2% of last year's class landed at an investment bank. Technology, private equity, and venture capital firms have been the big gainers. Our entrepreneurship classes and programs have also had an impact on careers — 15% to 17% of graduates in the past three years have founded companies, up from 5% 20 years ago.

The process of finding a job has evolved as well. Our current method for tracking job searches dates back to 2005. At that time, around a third of our students found jobs through on-campus interviewing, and the GSB hosted more than 250 official recruiting visits. This year, less than 15% of the class secured a job through on-campus interviewing. Two-thirds of students found jobs through network search, relying on peers, faculty members, and, in many cases, alumni. Our current students benefit enormously from the help and generosity of Stanford GSB alumni.

The nature of educational institutions is to evolve and innovate, reflecting and sometimes leading changes in the world. But because we have an enduring mission — a commitment to knowledge and to educating principled leaders who seek to broadly serve society — it is also fitting that the school's culture and spirit of optimism, innovation, and collaboration remain unchanged. We all share a thirst for knowledge and a collective sense of curiosity. Indeed, if you closed your eyes and simply listened to the conversations some weeks ago when the Class of 1968 convened for its 50th reunion and reminisced with Professor Jim VanHorne, you could have been forgiven for thinking you had stumbled instead into this year's required finance class.

Drew Kelly

Jonathan Levin

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

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"Narcissism is a spectrum.
We all have varying degrees of it."
— Charles A. O'Reilly III
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**Stanford Business**

INSIGHTS AND IDEAS FROM STANFORD GRADUATE SCHOOL OF BUSINESS

AUTUMN 2018
VOLUME 86, NUMBER 3

CAREER HIGH Why not veer from traditional routes when choosing a new path? PAGE 12

Courtesy of Nadine Lehner



*Cover illustration by Tim Evans*

FROM THE EDITOR

# EVALUATING VALUES

Anyone who's spent time at Stanford GSB — as a student, professor, staffer, you name it — knows how central the concept of value is to the school's mission. ▶ "Examine your values and be true to them" might be the best way to sum it up, and it's as much a mandate as it is an aspiration. It's embedded in the admissions essays that MBA applicants are asked to write ("What matters most to you, and why?") and implicit in the motto ("Change Lives. Change Organizations. Change the World.") emblazoned on my business card. ▶ Which means we didn't have to look far for stories that fit this issue's theme. Our lead article is a conversation, filled with counterintuitive advice, between Ken Shotts and Neil Malhotra, who jointly teach two courses on the subject: *Ethics and Management* for the MBA program and *Value-Based Leadership* for the online program LEAD Personal Leadership. ▶ The word value also extends to more secular subjects: things like market value, shareholder value, and the value of goods — from data to dresses. ▶ That gave us the opportunity to talk to Charles I. Jones and Christopher Tonetti about their research into the value of personal data; to Aruna Ranganathan about why artisans who are emotionally attached to their work give discounts to connoisseurs; and to Stephen J. Anderson about his field studies examining how marketing training can add value to small businesses (such as dressmakers) in developing economies. ▶ As for alumni, it's been enlightening to discover, again and again, how many of you have used the value-based lessons taught here to steer your careers. You'll see an example of that in our interview with Chad Cooper (MBA '01), who recently left a fast-track banking career to lead the struggling Brooklyn Conservatory of Music — a move partly inspired by conversations he had at his 15-year Stanford GSB reunion. Cooper's new office is dark and subterranean and doubles as a storage space for the occasional tuba. He's working the first two years there without pay. ▶ If you have a story about how a commitment to internal values triggered a change in your life or career, we'd love to hear it — even if it doesn't involve sharing an office with oversize musical instruments. Email us anytime at StanfordBusiness@stanford.edu.

— STEVE HAWK, EDITOR

*Illegal Alien's Guide to the Concept of Relative Surplus Value,* by Enrique Chagoya.

Iris & B. Gerald Cantor Center for Visual Arts at Stanford University; Modern and Contemporary Art Fund

**ENGAGE**

# Readers Share Their Thoughts on Catalyst

**I enjoyed your series** of articles on the future of food ("The Food Revolution," Summer 2018). I was especially drawn to Pure Harvest, which hopes to grow fresh, tasty vegetables in a high-tech greenhouse. Here in Jackson, Wyoming, we have a facility called Vertical Harvest, which does the same thing. The main problem I see is that no one has yet figured out how to grow tomatoes that have the flavor of garden tomatoes grown in the soil. Does Pure Harvest have the answer? If so, they may well have a winning project.

— EDWARD G. BEDDOW, MBA '77
*Jackson, Wyoming*

**I'm a current undergraduate** at Stanford and the son of Laurie Girand, MBA '87. We get *Stanford Business* at home, and I wanted to share just how much I appreciate the design of the magazine. It's focused, it's bold, it's perfectly content-oriented — it's just right. Please thank the layout team for their work.

— LIAM MCGREGOR, STANFORD '20
*Stanford, California*

*Correction: In our Summer 2018 issue, we provided the wrong title for economist Paul Oyer. He is the Mary and Rankine Van Anda Entrepreneurial Professor and Professor of Economics at Stanford GSB.*

**Editor's note:** The next issue of *Stanford Business* will be built around a dynamic theme. We're calling it "Shift." To that end, we're eager to hear — and share — stories from alumni related to the concept of change, particularly sudden change. Was there a moment during your time here at Stanford GSB, or in the years after, when you decided to make a dramatic shift in your life, career, or business? What sparked it? Did it work out? If not, why not? Please send us any compelling or instructive (or simply entertaining) anecdotes by emailing us here:

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# STANFORD BUSINESS ONLINE

## EDITED BY JENNY LUNA

Denise Peck

**WEB**

# "Asian Americans are highly credentialed, but get stuck in the middle. Why?"

So asks Denise Peck, MBA '85, who has dedicated the most recent chapter of her career to cracking the "bamboo ceiling." After three decades at Sun Microsystems and Cisco, Peck now serves as an executive advisor for Ascend Leadership, a nonprofit that aims to enhance the influence of Pan-Asian business leaders.
*https://stanford.io/DenisePeck*

**YOUTUBE**

### What the Pros Know About Public Speaking

Can anxiety be good for you? How should you start and end a talk? Stanford GSB lecturer Matt Abrahams shares what he knows about crafting meaningful presentations that make lasting impressions.
*https://stanford.io/Abrahams*

**WEB**

### Myra Strober: Breaking Barriers at Stanford GSB

One of the school's first female faculty members talks about that uninviting climate — and how she's built the field of feminist economics.
*https://stanford.io/Strober*

**WEB**

## Helping Latino Businesses Keep Pace

The Stanford Latino Entrepreneurship Initiative is amassing a huge database and network to nourish the fast-growing sector.
*https://stanford.io/SLEI*

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Camilla Ekenheim

# Lives

“At some point sympathy kicks in.
People start to think,
‘This is too much — that’s enough.’

**We see outrage at the outrage.”**

— **Benoît Monin** PAGE 16

Tim Evans

LEADERSHIP

# Are You An Ethical Leader?

**Good intentions and gut instinct won't take you far enough, say two Stanford GSB professors.**

BY SHANA LYNCH

When Intel decided it would no longer build chips with materials from conflict zones, it wasn't a textbook bottom-line business decision. Finding these natural resources — tantalum, tin, tungsten, and gold — from conflict-free countries took significant time and incurred extra costs.

But the "right thing to do," as Intel's director of corporate citizenship Gary Niekerk called the move, established the company as a leader in an industry-wide movement, pleased customers and employees, and built relationships with activists and NGOs.

"Ensuring a stable supply chain is always a good thing," Niekerk said in a Stanford case study. "Ensuring the ability to source from multiple regions of the world is a good thing. It was done because it is the right thing to do, but as you back out, you see additional values."

But how as a leader do you recognize the right thing to do? And how do you balance your responsibilities to shareholders, customers, employees, and society?

**Neil Malhotra is the Edith M. Cornell Professor of Political Economy, and Ken Shotts is the David S. and Ann M. Barlow Professor of Political Economy, at Stanford GSB.**

*Photograph by Drew Kelly*

KEN SHOTTS (LEFT)
AND NEIL MALHOTRA
**"How do you stay true to your values?"**

Those are questions Neil Malhotra and Ken Shotts, two political economists at Stanford Graduate School of Business, ask students to grapple with in their class *Values-Based Leadership*. The course, offered to online LEAD participants, combines human psychology and philosophy to challenge students in examining what they believe in, understanding why others might not believe the same, and articulating companies' responsibility to the world.

It's really a critical thinking class, they say. "Anybody can follow a 10-step algorithm," says Malhotra. "What's hard is when there's uncertainty in the world and you have to make a decision where the right answer isn't obvious."

Here they define values, discuss common pitfalls, and explain whether a less regulated world means a less ethical one.

**First, when we talk values-based leadership, whose values are we talking about?**

**Shotts:** It's both the values of the people at the top and those within the organization. In any large organization, you have a lot of people with different values who sometimes agree with what the organization is doing and sometimes do not.

How do you stay true to your own values while respecting the values of others in the organization? How do you articulate your organization's values and how you're going to live by them? Lots of companies have their statement of values, but then leaders run their organization in a way that sets people up to act opposite those values.

**Malhotra:** People don't regularly think about their individual values as part of their jobs. If you don't think about it, it leads to inconsistency.

**Most of us would claim we lead with our values. But we see so many headlines about companies falling short, from Uber to Theranos. Why?**

**Shotts:** When we talk about cases of clear fraud or criminal misdoing, it seems so easy to say, "What was *wrong* with these evil people?" But when they're in the moment, they're saying to themselves, "I have to do things for these investors" or "I have to do things for my employees to keep things going." It's the concept of escalation of commitment; at first you had very small things that would get covered up and justified, but then the amount of deception gets bigger and bigger and bigger. Theranos might be a good example of this. The people who founded that company had good intentions, right? They wanted to develop medical testing and products that would benefit the world. They believed in it. And either for the mission, for the long-term viability of the company, or for the employees, you can see how they end up making mistakes and unethical actions even though they begin with good intentions.

**You caution leaders against relying on gut instinct. Why shouldn't we trust our gut?**

**Shotts:** We need to use both the gut and analytical approaches to decisions, particularly for high-stakes stuff. And we need to do analysis *well*. I can come up with a spreadsheet and rig it so it aligns with my gut instincts. One of my best friends did this when he was trying to decide where to go to college. He kept jiggering the spreadsheet until it gave him the answer he wanted.

**Malhotra:** Very high-functioning people don't often understand that they use their intellect to rationalize their gut. The story of Supreme Court decisions, for example, is basically extreme intellectual rationalization of gut reactions.

**How do we counteract that?**

**Shotts:** Take time. If we have to do something quickly, our gut is the only thing we can use. It's only possible to use both our gut and reason if we take time. Also, rely on other people. This requires setting up an organizational structure where it's OK for the person in charge to be disagreed with or criticized. Highly functioning organizations do that well, while dysfunctional organizations penalize people who disagree.

**Malhotra:** Powerful people typically don't perceive that other people are agreeing with them because of their role. They have to learn to recognize that.

**"Anybody can follow a 10-step algorithm. What's hard is when there's uncertainty in the world and you have to make a decision where the right answer isn't obvious."**

Drew Kelly

> **“Growth is intoxicating. You start feeling like you’re king or queen of the world, and it’s easy to stop paying attention.”**

**How can a manager do that?**

**Malhotra:** Rules and institutions are good ways to counteract these psychological biases. For example, ask people to offer suggestions in order of reverse seniority. That’s much better than the CEO saying something and everyone else around the table saying, “Oh, that was a brilliant idea.” Or in the case of whistleblowing, you can have information escrows where if two people blow the whistle on the same thing, they can do it anonymously, or the institution will enable them to coordinate.

**Are there tools to help us in the moment when faced with a potentially bad call?**

**Malhotra:** There are phrases that we warn people about. For example, people will do something ethically questionable by using the argument, “Well, every company does this.” We know from decades of psychological research that the people who do such things are the ones most likely to think it’s common practice.

**Shotts:** Another strategy for difficult situations is planning ahead. I need a plan for what I’m going to do if I get shaken down by some corrupt official. I can’t just think, “I guess I’ll deal with it when it happens.” Because then, I’m much less likely to do things well.

**Malhotra:** Also, avoid putting yourself in situations like that. Some people know how to deal with a customs official asking for a bribe. Others may need to be self-aware that they can’t handle a situation like that, that it will be too tempting.

**In your class, you mention how regulations force companies to abide by societal values. In the U.S., we’re seeing deregulation in everything from the environment to finance. What does that mean for a values-based leader?**

**Shotts:** Deregulation doesn’t occur in a vacuum. It doesn’t occur without the participation of companies. Governments set the rules, and companies influence the rules. First, it’s incumbent upon business leaders to think about whether it’s ethical for them to push for a certain set of rules and, second, whether they should hold themselves as a firm or an industry to some higher standard than what the law requires.

There can be reasons to hold one’s self to a higher standard. They might be the values of the employees within the company. A great example is the pharmaceutical industry, where a lot of people work in the industry because they care about health care. In the industry’s traditional business model, if you get a successful drug, you have to exploit that IP as much as you can. This created a big conflict around 2000 with the global AIDS epidemic, when the pharmaceutical companies charged a fortune for their drugs. They got all this negative flak for it, partially because people within the companies were dissatisfied. They’re like, “We’re trying to improve people’s health. What are we doing with this pricing?”

Some of the time, companies self-regulate because they care about how customers perceive them, and some of the time it’s because they don’t want the government to regulate them. But if some companies hold themselves to a high standard and others don’t, then what happens?

**What *does* happen?**

**Shotts:** If you want to live according to a set of values, that’s a legitimate reason to push for regulation, to say, “You know, we’re going to be at a competitive disadvantage if other firms do bad, unethical practices, and we would like the government to step in.” And if you can’t get the government to do it, maybe approach activist groups and say, “You know, we’re happy to work with you to monitor our competition and shine the light on them if they’re doing stuff wrong.”

**When should leaders be especially aware of values?**

**Shotts:** At times of rapid growth. There are three reasons. One, it lays the foundation. It’s much easier to build the structure of values early rather than try to create that structure later. The second reason is that growth is intoxicating. You start feeling like you’re king or queen of the world, and it’s easy to stop paying attention to other things. And third, when you’re growing, you’re adding people, and it can be hard to build and maintain a values-based culture.

**What’s one value that all leaders must grapple with?**

**Shotts:** Diversity. There are strong arguments that diversity promotes effectiveness. But I think that has implications that people haven’t really thought through. What about situations where some people believe diversity produces ineffectiveness? That’s not a hypothetical — this has long been the argument against diversity in the military. But there’s a counter-argument rooted in social justice. Do I want to live in a world where people’s outcomes are highly predicted by their gender and by the color of their skin? Leaders really need to think through what they’re going to do about this, what policies they’ll put in place. This is an easy one for small companies to ignore, but it’s important to start thinking about it early on as part of their growth strategy. ∆

NADINE LEHNER
**"It was designed to be an experiment for a few months."**

Courtesy of Nadine Lehner

CAREER

# When Your Path Takes a Sharp Left

**Three alumni share what led them to take a chance on less conventional jobs.**

BY DYLAN WALSH

In September 2008, 10 years after winning an Academy Award for Best Actress, Gwyneth Paltrow founded Goop and achieved her lifelong goal of seeking out and sharing recommendations. Arnold Schwarzenegger had bodybuilding, until he had Hollywood, until he had the governor's mansion. And John Grisham practiced law before writing best-selling fiction about it.

We all fantasize about vocational revolution, stepping outside of the present to pursue some longstanding dream. But how do we know if fantasy should become something more? And, if we think it should, how do we transmute dream into reality?

Stanford GSB sought answers to these questions with three joint-degree graduates from Stanford Graduate School of Business and the Emmett Interdisciplinary Program in Environment and Resources (E-IPER). Each one veered sharply off a rising career arc. Here they explain when they knew it was time and how they made it work.

Jana Hennig, Nadine Lehner, and Matthew Mo earned joint degrees from Stanford GSB and the Emmett Interdisciplinary Program in Environment and Resources — Hennig in 2017, Lehner in 2016, and Mo in 2014.

## Nadine Lehner: Cofounder, Chulengo Expeditions

**Nadine Lehner** graduated from college, spent five years doing conservation work in Patagonia, then headed to Stanford with the sense that "now I would come back to the U.S. and have a slightly more conventional job," she says. She started the joint degree in 2014. In 2016, she worked as a summer associate at Bain & Company and signed an offer letter to return in July 2017.

But she couldn't let Patagonia go. Throughout her time at school, she built up Chulengo Expeditions, an educational ecotourism company in Chile. Six months before her full-time job with Bain was to begin, she moved south to test the business model. "It was designed to be an experiment for a few months," Lehner says. "I figured I might keep it up part time once I went back to work at Bain, but when I got to season's end, I realized it made more sense to continue with Chulengo."

Several things helped convince her this was the right decision. First, customers who got to know Lehner through days spent together on remote mountain trails encouraged her to stay on. "There was something affirming about people seeing this and saying you seem to be happy," she says. Second, her cofounder recommended she spend a day imagining what it would be like to remain at Chulengo — a way to shake her from a post-MBA mindset and think through alternatives. Lehner was immediately filled with ideas of what she wanted to do. She extended 24 hours to 48 — and then continued dwelling on the idea for a week. "I felt much more excited as a human," she says. She also had ample time to sort through priorities. "Taking long walks in the mountains with no cell service and really smart, caring people to talk to — this has a great de-cluttering effect," she says. Not everyone, she realizes, has this luxury.

And, finally, on Lehner's last expedition before her job at Bain was to start, another hiker recounted advice from author Cheryl Strayed on choosing paths in life. Whatever we don't choose simply becomes "the ghost ship that didn't carry us," Strayed writes. "There's nothing to do but salute it from the shore."

"I had to realize that there was this perfectly legitimate version of life where I moved back to San Francisco, worked at Bain, was near my GSB friends, pursued hobbies," says Lehner. The decision then became less about sorting out which option was, by some quantifiable or objective standard, better, but rather about recognizing and accepting that "Bain offered a valid and good life, but I'm just not going to choose it right now."

Lehner has now been running Chulengo for almost two years, and it has been a challenge — the distance from family and friends, the need to create her own solutions to obstacles, the absence of immediate supervision. "I've realized that it can be satisfying to be told what your job is by someone else, go do a good job at it, and then be told that you did a good job," she says. But she also finds the work of Chulengo immensely invigorating and fulfilling. "The more I dive into it, the more I realize it's a life I'm excited about."

Jana Hennig

Courtesy of Jana Hennig

## Jana Hennig: Executive Director, Positively Groundfish

**Jana Hennig** burst into tears one day while leaving work. There was no clear trigger that day — she liked her job well enough, but for 18 months she had been distraught over a problem beyond her day-to-day: the state of the world's oceans, a concern born from months spent volunteering with researchers on the southwest coast of Madagascar. She was still crying when she got home, and two hours later after journaling whatever came to mind, she knew that she needed a radical career change. She applied to graduate school.

At Stanford, Hennig focused on marine conservation. Ten years in marketing at some of the world's largest consumer packaging goods companies did little to prepare her for classes like aquatic chemistry. "I had a lot of catching up to do," she says. But, beyond the intensity of coursework, Hennig also fought an uphill battle convincing the world of marine conservation professionals that her skills were worthwhile.

"The organizations that interested me were mostly staffed by marine biologists with PhDs," says Hennig. "Figuring out my unique value and framing it to a new set of people was really key."

To clear this hurdle, Hennig networked extensively once at Stanford, not simply describing her skills, but demonstrating them. For instance, before starting her E-IPER capstone project, in which joint-degree students draw on their coursework to address a real-world, environmental problem, she informally surveyed several marine conservation nonprofits about which issues they considered understudied. She then designed her project around these responses and later called the nonprofits back to ask if she could present her work, which looked at applying the ideas of community-supported agriculture to fish. "Of course, they were happy to have someone come in and offer insights that they needed," she says. One of these presentations led to a lunch, which led to a job offer.

Hennig is now the executive director at Positively Groundfish, where she coordinates a group of nonprofit partners as they publicize the story of one of the West Coast's best ecological comeback stories — groundfish fisheries, resurgent after their collapse in 2000. She spoke bluntly about the fact that even a career imbued with great moral purpose is often defined by the mundane: spreadsheets, conference calls, meetings. "But here," she says, "when we are winning, I know we are winning at the right thing."

> **"There is an overwhelming desire to find something quickly, and it takes a lot to fight that temptation."**

Courtesy of Matthew Mo

## Matthew Mo: Vice President, New York City Economic Development Corporation

For three years, **Matthew Mo** was an investment banker at Morgan Stanley, and for three years he struggled to balance the demands of work and the demands of being a good husband to his wife and a good father to his young daughter. "It was hard to have comfort that I was doing both things well, or that I even could," Mo says. When he finally decided to leave, "it wasn't the result of a particular moment, but the accumulation of a lot of thinking."

With his wife's support — "that was absolutely key" — Mo left Morgan Stanley and committed himself full time to finding a new career. Perhaps the most important step was deciding whom to consult; mentors and people who have appealing jobs are obvious choices, "but you should also go back and talk to old friends, or to people who have faced similar career challenges even if they're in a very different sector," he says. "At the end of the day nobody is going to be able to answer what you're looking for so you need people who are willing to test your thinking and challenge you."

During his search, Mo also learned the importance of being willing to back down from an idea. At a certain point, Mo essentially decided that a career in real estate development was "the right idea." But a series of conversations with people involved in the work and people who knew him well demonstrated that it wasn't, at the time, the best fit. Mo wanted to build experience from a diverse group of projects, and he learned real estate development would pin him down with one or two projects over many years. Though he had committed a lot of time and thought to the idea and had mentally started to prepare himself for the work, he pivoted his search. "There is an overwhelming desire to find something quickly, and it takes a lot to fight that temptation," he says.

Finally, as with Chulengo's Nadine Lehner, Mo found that time and space to reflect on what matters helped him define precisely what kind of workplace he wanted. It was disconcerting to leave Morgan Stanley without a job lined up but doing so was necessary to meaningfully sound out new career options.

Upon the recommendation of a friend, Mo eventually landed on the strategy team of the New York City Economic Development Corporation. In this role, he and nine colleagues support the work of the corporation's core projects, from managing the expansion of New York's ferry system to facilitating a rezoning project at the northern tip of Manhattan. "It is really interesting work," says Mo. "And these days I'm home for dinner." ▲

**EMPATHY**

# The Unexpected Consequence of Viral Outrage

## Even justified outcries can backfire when people pile on.

BY MELISSA DE WITTE

On social media, people can be quick to call attention to racist, sexist, or unpatriotic behavior they see. But when that outcry goes viral, those challenging the behavior may be perceived less as heroes doing the right thing and more like bullies doling out excessive punishment, say Stanford researchers in a new paper for *Psychological Science*.

Through a series of studies, Stanford GSB professor Benoît Monin and Stanford University graduate student Takuya Sawaoka found that while comments against offensive behavior are seen as admirable as individual remarks, when they multiply they may lead to greater sympathy for the offender.

### THE VIRAL OUTCRY

"One of the features of the digital age is that anyone's words or actions can go viral, whether intended or not," says Sawaoka. "In many cases, the social media posts that are met with viral outrage were never intended to be seen by people outside of the poster's social circle. Someone doesn't even need to be on social media in order for their actions to go viral."

Monin notes that social media outcries have become increasingly frequent. "We've all either been in one of those maelstroms of outrage or just one step away from one as bystanders on our social media news feeds," he says.

For example, in 2013 there was public outcry over a young woman who tweeted that she couldn't get AIDS while traveling to Africa because she was white. Her post, which she said she intended as a joke, went viral and led to her being fired from her job.

"On the one hand, speaking out against injustice is vital for social progress, and it's admirable that people feel empowered to call out words and actions they believe are wrong," says Sawaoka. "On the other hand, it's hard not to feel sympathetic for people who are belittled by thousands of strangers online, and who even lose friends and careers as a result of a poorly thought-out joke."

### TESTING REACTIONS

Sawaoka and Monin put their observations to the test.

They conducted six experiments with a total of 3,377 participants to examine how people perceived public outcry to an offensive or controversial post on social media.

In one study, the researchers showed participants a post taken from a real story of a charity worker who posted a photograph of herself making an obscene gesture and pretending to shout next to a sign that read "Silence and Respect" at Arlington National Cemetery.

They asked participants how offensive they found the photograph, as well as what they thought about the responses to the post.

Sawaoka and Monin found that when participants saw the post with just a single comment condemning it, they found the reaction applaudable.

But when they saw that reply echoed by many others, they viewed the original reply — which had been praiseworthy in isolation — more negatively. Early commenters were de facto penalized for later, independent responses, they say.

"There is a balance between sympathy and outrage," says Monin about their findings. "The outrage goes up and up, but at some point sympathy kicks in. People start to think, 'This is too much — that's enough.' We see outrage at the outrage."

The researchers were also curious to know whether people would feel less sympathetic depending on the status of the offender. Would they feel differently if something offensive was said by a well-known person, or by someone many people regard as abhorrent, like a white supremacist?

In one study, participants were shown a social media post taken from a real story where a comedian ridiculed overweight women. The researchers set up two conditions: one where they referred to him as an average social media user, and another where they said he was an up-and-coming comedy actor.

Mirroring their earlier findings, the researchers found that a high-profile persona elicits just as much sympathy as an average person — despite the fact that people believed the celebrity's post could cause more harm. And like their previous results, the researchers found that individual commenters are also viewed less favorably after outrage went viral.

When Sawaoka and Monin tested for affiliation to a white supremacist organization, they found similar results. Although participants were less sympathetic toward a white supremacist making a racist comment, they did not view the individuals who participated in the outrage any differently. They still perceived the viral outcry as bullying.

"These results suggest that our findings are even more broadly applicable than we had originally anticipated, with viral outrage leading to more negative impressions of individual commenters even when the outrage is directed toward someone as widely despised as a white supremacist," Sawaoka and Monin wrote.

### THE OUTRAGE DILEMMA

The question about how to respond to injustice in the digital age is complex, Sawaoka and Monin concluded in the paper.

There is no easy solution, the researchers say.

"Our findings illustrate a challenging moral dilemma: A collection of individually praiseworthy actions may cumulatively result in an unjust outcome. Obviously, the implication is not that people should simply stay silent about others' wrongdoing," says Sawaoka. "But I think it is worth reconsidering whether the mass shaming of specific individuals is really the best way to achieve social progress." ∆

**Benoît Monin is the Bowen H. and Janice Arthur McCoy Professor of Ethics, Psychology, and Leadership at Stanford GSB.**

*Illustration by Eleni Kalorkoti*

**PHILANTHROPY**

# The Music Moved Him

## Chad Cooper left a fast-track banking career when a struggling conservatory called his name.

BY MARTIN J. SMITH

**Chad Cooper**'s managing director position at Deutsche Bank in New York came with a substantial salary, bonuses, a generous expense account, and business-class travel. "I didn't have 12 secretaries or people feeding me grapes or anything like that," says Cooper, who earned his MBA from Stanford GSB in 2001, "but it was the life of a banker."

Two years ago, after a 16-year Wall Street career — and with the blessing of his wife, Claire Ellis, MBA '02 — Cooper, 45, walked away from all that to take the executive director's job at the nearly insolvent Brooklyn Conservatory of Music. In doing so, he willingly stepped off his chosen career path and into a subterranean office that doubles as instrument storage space in the conservatory's five-story Victorian building.

"I realized I could continue on in banking for a while," he says, "or I could jump in and do something that was really calling to me."

Since Cooper took the reins in August 2016, the 121-year-old nonprofit institution in Brooklyn's Park Slope neighborhood has seen a 71% increase in individual donors over fiscal 2016 and a fivefold increase in attendance. Assets have shown a net increase of $400,000 over fiscal 2016. Attendance at its flagship Community Music School is up 19%.

Cooper is also walking the walk: He recently started taking piano lessons himself.

**After 16 years as an investment banker, you opted out. Why?** Even as a Stanford GSB student, my intention was to work in the private sector, then ultimately return to the social sector. But once you start down a private-sector path, it can be daunting to pivot. For me, the stars aligned when the Brooklyn Conservatory of Music, this incredible organization whose board I'd joined, was in dire need of management skills I'd spent my career developing.

**Where'd that impulse come from?** Before I went to business school I worked for four years for the city of St. Louis doing inner-city economic development. I also launched a grassroots nonprofit organization that helped mobilize younger people to take an active role in city revitalization efforts. That was a really big part of my life, so when I came to Stanford, I had a strong sense of what I wanted out of business school, and I wanted to bring that back in some way to the nonprofit sector. I tried to save up a little money to have enough security to take myself out of moneymaking for a while. I had a serious conversation about it with my wife just before my 15-year GSB reunion, and a lot of the people I talked to at the reunion were also in the middle of big career change. It was validating for me.

**What made you decide to finally act on that impulse?** I'd been serving on the board of directors at the conservatory for two years, and just after the business school reunion, the conservatory's executive director resigned. I'd served as the conservatory's treasurer and knew it was in dire financial shape. It was functionally insolvent, with no capital at all in the bank. All these things happened in tight sequence — the conversation with my wife, the Stanford reunion, the resignation. It all just came together for me.

**You agreed to work the first two years at the conservatory for no pay. How were you able to afford to do that?** I send my kids to public school. My wife works full time. We don't live an extravagant life. I didn't walk away from my banking career with a huge amount of wealth, but there are a lot of people who get by with a lot less than I do in New York City and give of themselves in profound ways. They make it work. There are sacrifices, but I didn't want to wait until the end of a 30- or 40-year career and then tack on the philanthropic portion of my life. I wanted to do it at a young age. You don't have to have millions in the bank to do something like this.

**What have been the upsides of that choice?** I really love what I do. I'm totally energized going into the office every day. I've always been motivated by the idea of building something and, even though the conservatory is 121 years old, we're in startup mode. I inherited an organization that needed fundamental change, and it's enormously motivating to come to work and to have that intense focus for turning a place around and building something for the future. We provide music therapy to 1,500 people, including those with autism, kids whose parents are incarcerated, and seniors with dementia. I see how transformative their experiences are. It's gratifying to see the work we do every year with 6,000-plus New Yorkers who otherwise would have no access to music education.

**Any downsides?** I work really hard. When I originally thought about the move, I'd envisioned more balance in our lives, but that is definitely not the case. I work my butt off. It's an extremely complicated business — being both an educational and cultural institution. We have countless obligations. We're open seven days a week, with 200-plus concerts and events a year, plus board meetings and planning meetings. We have 185 employees. It's a 24/7 job. I love it, but it's intensely demanding.

**Describe your office now compared with your office on Wall Street.** There are 15 of us crammed into this warren that's partially underground, often with three or four people sharing an office. I have my own office, but there may be a tuba or music binders for the chorale stored in there. I used to work in a gleaming modern high-rise on Wall Street. Our floor at Deutsche Bank had more square footage than the entire conservatory, and the table in my office there wouldn't even fit in my office at the conservatory. But I don't miss it. I'm very at home where I am now.

**How does the pressure compare?** It's a high-stakes job. The decisions we make can have huge implications for hundreds or thousands of kids around New York City. It's very tangible. If we can't come up with the funding for a particular school, 350 kids won't have any music at all. Full stop. We know how valuable that is and how incredibly impactful that can be for the rest of their lives. Then take that number and multiply it by 60 or 70. So it would be a terrible tragedy for thousands of people if this organization went down on my watch. It gets me out of bed and makes me excited to attack the day. I think that's the right kind of pressure.

*Photograph by Cole Wilson*

CHAD COOPER
"Music can truly transform people's lives."

**Why do you think arts education is so important?** Music can truly transform people's lives. I've felt it in my own life, and I've seen it over and over again at the conservatory. We have nonverbal music therapy clients who have learned to speak through singing. We hear all the time from parents whose children and teens are channeling their anxiety or frustration into creative self-expression through music. Music education fosters not only joy and fulfillment but also empathy, self-confidence, discipline — fundamental skills people need to succeed — many of the same skills you learn in business school.

**Got a specific example of that?** We just started a Jazz Explorers ensemble for girls. There's enormous attrition among women in the professional jazz world. There's parity among boys and girls early on, but by the time they get to middle school the young women start dropping off. So we identify and recruit young women to the conservatory. We had 16 girls who showed up for the inaugural seven-week workshop, and all 16 continued into the summer jazz camp. The first year of that camp we had 11 boys and no girls. But this year we had 32 kids, with 16 girls. And they're *amazing*.

**Any particular Stanford books, professors, or classes that you found particularly influential as you considered changing careers?** I loved James VanHorne, the legendary finance professor. But I think more than the classes themselves was the idea that the school doesn't make any value judgments about what someone's career aspirations are. It's in the DNA of Stanford.

**What would you say to someone considering a similar career change?** Trust yourself and make the leap of faith. You don't have to have a vast amount of money. Just do it. I did plan for it, and that's important, but it's incredibly fulfilling to just go for something you're really passionate about. ▲

**Chad Cooper earned his MBA from Stanford GSB in 2001.**

PRIVACY

# What's the Value of Private Data — and Who Should Own It?

**In an ideal world, consumers would control the rights to their data — but would also be able to sell it broadly.**

BY DYLAN WALSH

In September 2017, roughly half the people in the U.S. had their name, date of birth, and Social Security number stolen from Equifax. A few months later, the *New York Times* reported that the private company Cambridge Analytica had harvested information from more than 50 million Facebook users without their permission and provided it to the 2016 Trump campaign. Congress later dragged Mark Zuckerberg to Washington, D.C., for two long days of very public, often uncomfortable questioning.

These data breaches, among others, have vaulted concerns over consumer data protection to the front of legislative dockets. "Laws are being written right now with respect to data use and property rights in California, in Europe, all over the world," says Christopher Tonetti, an associate

**Charles I. Jones is the STANCO 25 Professor of Economics, and Christopher Tonetti is an associate professor of economics, at Stanford GSB.**

*Illustration by Stuart Patience*

professor of economics at Stanford GSB. "They're being written to protect consumer privacy, which I think is important, but that's not the whole picture."

In recent work, Tonetti and Charles I. Jones, also an economics professor at Stanford GSB, studied how data is valued, with an eye toward determining what an ideal market ought to look like — a question that economists, until this point, have given limited consideration.

"Who should own data?" they ask in their published working paper. "What restrictions should apply to the use of data?"

In answering these questions, they found that the current arrangement is far from optimal: People, not companies, should have rights to their data, and people, not companies, should be able to sell it as they see fit.

## THE LIMITLESS NATURE OF DATA

Data, like ideas, is peculiar in one very important dimension: Whereas most goods in any economy are scarce — if you buy a car or eat a sandwich, your neighbor can't buy that same car or eat that same sandwich — data is limitless. "Data is just a string of ones and zeroes, and whether it's used by one person, or 10 people, or a million people, it doesn't get depleted," says Jones. (In economic terms, data is *nonrival*, while most other goods are *rival*.) "At some level, that means there is inherent social value in sharing data."

**"People care about privacy, but they also care about consumption."**

This gives rise to two competing interests. On one side is privacy. "People have a natural tendency to not want everything shared," Jones says. The same is true of companies, which hoard data for competitive advantage; if a company made all of its consumer information public, then competitors could more easily undermine its business.

On the other side, though, are the interests of efficiency. "It's also important to consider the use of data as a factor of production across multiple firms," Tonetti says.

When it comes to self-driving cars, for instance, bigger datasets are better for training machine-learning algorithms. Because data is nonrival, Uber and Tesla and every other car company could theoretically share consumers' driving data and each sell a better product. But they don't. The same is true for medical research companies and their health records, or natural language companies and their speech and text archives — sharing would improve efficiency, but sharing like this is rare.

## THE IDEAL MARKET

How do you balance concerns over privacy, competition, and efficiency when considering a market for data? To answer this question, Jones and Tonetti started by modeling an optimal economy managed by a benevolent dictator who respects all of the variables in play. This scenario was used as a benchmark of what it looks like to maximize welfare.

Against this ideal, they then tested three scenarios conceivable in today's world: Companies own data, people own data, or the sharing of data is essentially outlawed.

In the first case, which most closely resembles today's market, companies neither respected consumer privacy as much as consumers wanted nor shared effectively with other companies.

But when, instead, individuals owned their data, Jones and Tonetti found outcomes that were close to optimal. "Consumers care about privacy, but they care about consumption, too," says Jones. With this split incentive, consumers preserved the data they wanted private but sold other data to many different firms, capitalizing on the value inherent in sharing nonrival data widely.

The third case, in which sharing data was banned, unearthed an important insight directly relevant to the real world: Failing to share data ultimately stifled economic growth. Legislation around how to regulate data therefore concerns not only issues of privacy but also the long-term health of the economy.

One of the next big questions for Jones and Tonetti is how to actually design a marketplace through which individual consumers are able to preserve and sell their data. Though nothing like this yet exists, "people are thinking about it and working on it," says Jones. "There are ways to use blockchain with other novel technologies so that consumers own their data and the scenario we laid out could be a reality."

In the meantime, the companies that control most of this imperishable private data continue to send mixed messages about whether they or consumers should own it — and thus profit from it.

For instance, during Zuckerberg's testimony before the Senate Judiciary Committee, he was asked whether he would be comfortable going public with the name of the hotel where he was staying or the people he'd messaged that week. "No," he said. "I think everyone should have control over how their information is used." Jones and Tonetti say their research shows why Zuckerberg was right in more ways than one: Personal control of information is paramount not just to bolster personal privacy, but also — and importantly — to make the best use of "nonrival" data to increase productivity and overall economic well-being.

# Organizations

Tim Evans

“We’ve basically done away with personal liability in banking.

**Now the debate is whether to bring it back.”**

— Peter Koudijs PAGE 32

**RISK**

# Here's How Narcissistic CEOs Put Their Firms at Risk

## Companies headed by overconfident, self-centered risk-takers are more likely to end up in court.

**BY PATRICK J. KIGER**

Charles A. O'Reilly III recalls the time that his wife encountered Apple cofounder Steve Jobs in the Whole Foods Market parking lot in Palo Alto. "She was walking out when he was walking out, and when he climbed in his car and pulled out, he had parked in a handicapped spot," recounts O'Reilly, the Frank E. Buck Professor of Management at Stanford GSB and an expert in organizational behavior.

That same self-entitlement and willingness to ignore rules — detailed at length by Jobs biographer Walter Isaacson — was part of what enabled Jobs to disrupt multiple industries and transform everyday existence with an innovation called the iPhone. But, O'Reilly explains, some of the same traits that we exalt in visionary business executives also are characteristics of narcissists. In that personality disorder, a sense of superiority and overconfidence are accompanied by low empathy and a tendency to take advantage of others.

"Narcissists like and want admiration," O'Reilly explains. "There's evidence that they seek out positions where they can demonstrate to others how great they are."

**Charles A. O'Reilly III is the Frank E. Buck Professor of Management at Stanford GSB.**

*Illustration by Edward Kinsella*

At first glance, it might seem worth it for a company's shareholders to tolerate a narcissistic CEO's abusive personality, given the outsized success that Jobs and others like him have achieved. But narcissistic CEOs' rampant hubris also has a serious downside, O'Reilly notes. Studies indicate that they're more likely to engage in questionable tax-avoidance schemes, to manipulate accounting data, to overpay for corporate acquisitions, and to seek excessive compensation.

In an article published in *Leadership Quarterly*, O'Reilly and colleagues Bernadette Doerr and Jennifer A. Chatman of the University of California, Berkeley, show that narcissistic CEOs subject their organizations to potentially ruinous legal risks as well. Not only are they more likely to become embroiled in protracted litigation, but their personality traits also make them less sensitive to objective assessments of risk. Narcissists are less willing to take advice from experts and to settle lawsuits — even when it's likely that the company will lose.

## NARCISSISM AND LAWSUITS

In one part of their work, O'Reilly and his colleagues utilized a confidential survey of employees of 32 large technology firms, in which respondents answered questions about their CEOs' personalities, with the understanding that neither the individuals nor the firms would be identified. In addition to analyzing that data, the researchers gleaned information about major lawsuits — i.e., those in which damages might exceed 10% of corporate assets — from the companies' annual reports. The result: a significant correlation between the level of CEO narcissism and the length and duration of lawsuits.

O'Reilly and his colleagues also ran experiments. They recruited subjects to take personality assessments and had them pretend to be CEOs during role-playing exercises. Some had to decide whether or not to proceed with a new product launch, which had either a 20% or 80% chance of triggering a lawsuit. Others had to choose whether or not to settle an ongoing suit, with either a 20% or an 80% chance of losing.

The results were striking. When the probabilities of losing were low, narcissists and non-narcissists were equally likely to take the sure bet, O'Reilly says. But when faced with a high probability of losing, when most people refuse to gamble, narcissists were more likely to take the risk.

"Narcissists are less sensitive to avoidance of punishment and more sensitive to the possibility that they'll win big," he says. "When the risk goes up, what they see is that if they win, they're going to be heroes. Now most of us say, 'Ah, the probability of losing is high, so I'm not going to do it.' But the narcissist says, 'Yes, the probability of losing is high, but look at what happens if I win!' "

## WHY VCS LIKE BIG EGOS

Dangerous as it is, that same excessive confidence is what often helps narcissists rise to the top in the first place. "Venture capitalists like narcissists," O'Reilly explains. "Imagine you're a venture capitalist and you're thinking about which of two companies to fund. Let's say, for the sake of argument, that both have the same technology and the same market risk. But one is headed by someone who is confident that she's going to change the world, who thinks people who disagree with her don't know what the hell they're talking about. The other is headed by some introverted engineer. Which are you going to pick?"

**"If I lie to you, and you find out about it, I'll feel terrible. A narcissist doesn't feel terrible."**

Narcissists also are hard to turn down, because they're often skilled manipulators, adept at spinning falsehoods. "They're often quite good at reading other people," O'Reilly says. "And they don't have a problem making promises they can't keep. If I lie to you, and you find out about it, I'll feel terrible. A narcissist doesn't feel terrible."

Once they're ensconced in the C-suite, narcissists' self-aggrandizing ways can lead to business breakthroughs, but their tendency to be control freaks can wreak havoc and make subordinates' lives miserable. "They want control, so they create these corporate environments full of fear, where people are afraid of what the boss is going to say," O'Reilly says. "There tends to be less collaboration." And because narcissists are rule-breakers, that lowers the bar for integrity in the organization itself.

Unfortunately, when narcissist CEOs get their companies into trouble, they often manage to avoid consequences. "If they fail, they get a golden parachute," O'Reilly notes. "It's others who pay the price."

O'Reilly urges corporate boards to take a harder look at CEO candidates' personalities before they make a hire. "This is a governance problem," he says. Rather than perform psychological testing on potential executive hires, he says, companies should interview people who worked for a candidate at various levels of a previous organization.

In the end, though, companies have to decide how much narcissism they're willing to tolerate in a leader. "Narcissism is a spectrum," O'Reilly says. "We all have varying degrees of it. Some level of it is a good thing, because at the low level, you have people who lack self-confidence and don't like to take risks, and they're unlikely to perform well. It's at the very high levels, the malignant narcissist, where these negative tendencies come through." ∆


J'ACCUSE! In the early 2000s, Enron CEO Kenneth Lay became the face of corporate malfeasance.

ETHICS

# It's Time to Value Stakeholders Over Shareholders

## Why corporations need metrics that quantify how decisions affect things beyond the bottom line.

BY LOUISE LEE

Look at corporate press releases and financial documents and you'll see countless references to the goal of "creating shareholder value." But, says Bethany McLean, shareholders alone are too narrow a population for a company to serve. "If creating shareholder value means doing something that's terrible for employees, that's a problem," says McLean, who visited Stanford GSB recently as part of the school's Corporations and Society Initiative.

A longtime journalist best known for exposing Enron's scandalous business practices, McLean contends that companies should instead be judged on how well they create "stakeholder value," meaning benefits for employees and customers as well as shareholders. Such a shift requires

Mark Wilson/Getty Images

> **"There's the capability in any company, particularly in a world that's bottom-line driven, to go wrong."**

crafting "a language to measure impact, so that 'creating stakeholder value' doesn't become an excuse for poor performance," she says. That language would need to include metrics that quantify the overall social benefit of a company's products and reflect the source of profits, clearly showing if, for instance, a significant portion of profits were coming from layoffs rather than rising sales.

Now a contributing editor at *Vanity Fair*, McLean was at *Fortune* in 2001 when she wrote the first investigative piece noting the impenetrable complexity of Enron Corp.'s financial statements and suggesting that the company's shares were overpriced. She has also written about scandals at a range of companies, including Valeant Pharmaceuticals International and Wells Fargo.

## MISALIGNED INCENTIVES

One common thread in many high-profile business scandals is a focus on short-term profits, McLean says. Citing employees at Enron and at subprime mortgage companies who profited handsomely before their firms went under, she suggests that compensation and incentives were misaligned with the long-term health of the company.

"There's something wrong if people are able to extract millions in personal wealth out of a company that's bankrupt a few years later," she says, adding that in some cases, the companies' actions were legal but executives were "gaming the system" to benefit themselves and feed their egos.

McLean says that government regulations are of limited use because while they purport to prevent a problem from reoccurring, they can't anticipate every potential scandal in a fast-changing business world. Nonetheless, regulators should attempt to set rules that are fair and effective. Save for whistleblowers, employees have proved to be ineffective at helping to police the companies they work for. "If you're in a culture, you absorb the mores of where you are whether you want to or not, and you function according to its edicts," she says.

## PROFITS AS A BYPRODUCT OF SOUND PRACTICES

After years of writing about businesses gone awry, McLean has some ideas about what makes well-run companies. In those, she says, executives' financial incentives are "aligned with the well-being of all stakeholders," including employees and consumers, so that "you actually provide a safe and remunerative work environment for your employees and provide products or services that are really offering a value to the world." A well-run business doesn't drastically raise the price of an old drug or peddle loans to people who clearly will be unable to repay them, she says.

Of course, a firm must generate income to survive, but shareholder returns should not be the primary driver; they should be a byproduct of processes that provide value to customers and employees, McLean says.

"I actually think most people in most companies are extremely well-intentioned," she says. "But there's the capability in any company, particularly in a world that is short-term oriented and bottom-line driven, to go wrong."

**Bethany McLean is a contributing editor at *Vanity Fair.***

**RECRUITING**

# Tech Companies Are Geeks When It Comes to Hiring Women

## The problem isn't just the pipeline. Firms struggle to attract women because their recruiters still think it's a boys' club.

BY CHANA R. SCHOENBERGER

Much of the debate about the paucity of women in technology focuses on the pipeline problem: how to get young schoolgirls interested in science and math. But what happens when girls do elect to study STEM fields? Why aren't many women with technical qualifications moving into STEM-related careers?

New research suggests that how technology companies recruit candidates during on-campus information sessions might play a role in dissuading women from the jobs.

Researchers Shelley Correll, a professor by courtesy at Stanford GSB and head of Stanford's Clayman Institute for Gender Research, and Alison Wynn, a postdoctoral researcher at the institute, focused their attention on these job information sessions to see how recruiters engage prospective employees on a West Coast college campus. The researchers sent a team of observers to 84 sessions where 66 companies recruited for technical roles, mainly as entry-level engineers.

While these sessions, common to all elite universities, welcome both men and women, the researchers found that companies missed opportunities to draw women in and often actually pushed them away instead. The result is that women who hold or are about to graduate with computer science, engineering, or other quantitative degrees can be deterred from tech jobs.

### GENDER IMBALANCE

In the sessions, the researchers found, presenters often peppered their remarks with references to geek culture favorites like *Star Trek* and *The Hitchhiker's Guide to the Galaxy*, focused on only the highly technical aspects of the job, or referred to high school coding experience. These topics often excluded women, who on average join the field after high school and can feel excluded from the images depicted in geek culture. Also, men overwhelmingly led the sessions, and when companies sent female employees, their roles most often consisted of discussing company culture or setting up food.

"Through gender-imbalanced presenter roles, geek culture references, overt use of gender stereotypes, and other gendered speech and actions, representatives may puncture the pipeline, lessening the interest of women at the point of recruitment into technology careers," the researchers write.

There were other red flags. At some of the recruiting sessions, the researchers were surprised to hear presenters referencing subjects like pornography and prostitution in their remarks, often when joking. Unprepared presenters, particularly men, were more likely to make inappropriate jokes.

"A lot of the worst content came when the presenter was speaking off-the-cuff comments, trying to be relatable to students and funny," Correll says. "You wouldn't want to take a very talented woman who's getting her degree in computer science and is coming to an info session for your company and do things like this. It's just counterproductive."

Both large and small companies showed the same patterns of lauding geeky, fraternity-house culture, although big firms' sessions were less egregious. The researchers also noticed some improvement when company sessions included videos, which were more likely to be vetted for questionable content.

The overall effects of these patterns were noticeable: Female students tended to ask fewer questions than their male counterparts, and some left the sessions early.

### FINDING SOLUTIONS

There are ways for companies to fight this problem, the researchers say. Among their suggestions:

- **Add female engineers to the recruiting team and have them present core technical content during the event, not just pass out T-shirts.**

- **Feature the company's technical work in a way that emphasizes its real-world impact, rather than describing the engineering staff as a group of people who sit in a darkened room all day. While some consider this the definition of hard-working tech-world glory, female students are less likely to feel this way.**

- **Present the technical work in an approachable way, showing that there are multiple pathways into a technical career. "Women often come to tech later than men and don't always have the high school work, but this does not affect their success in the field," Wynn says.**

These tactics pay off. At presentations where companies incorporated these ideas, female attendees asked twice as many questions and showed greater engagement, the researchers found.

The paper urges executives to consider whether their recruiting information sessions are having the intended effect or its opposite.

"We're looking at a place where companies can actually have an impact," Wynn says.

**Shelley Correll is a professor of organizational behavior (by courtesy) at Stanford GSB and Barbara D. Finberg Director of Stanford's Clayman Institute for Gender Research.**

*Illustration by Shreya Gupta*

LIABILITY

# Should Bankers Have Some Skin in the Game?

## A study of 19th-century marital laws shows banks took fewer risks when managers were held personally accountable for failure.

BY SACHIN WAIKAR

What does the timing of bankers' marriages in mid-19th-century New England have to do with the current debate over bank regulations?

A lot, according to recent research by Stanford GSB finance professor Peter Koudijs. His paper, "For Richer, For Poorer: Banker's Liability and Risk-Taking in New England, 1867-1880," written with Laura Salisbury (York University) and Gurpal Sran (University of Chicago), studies the association between personal liability and risk-taking among bank managers of that time.

The researchers found that 19th-century bankers who faced less personal liability due to new marital-property laws were more willing to take risks than their counterparts with more such liability. The findings have implications for liability-related policy related to bank executives today.

"There's a lot of current policy debate in the U.S. about how best to organize banking and monitor bank managers," Koudijs says. "One argument is that the recent financial crisis was caused because bank managers didn't have enough skin in the game. If they took significant risk and it paid off, they could make large bonuses. But if they failed, they wouldn't personally lose much."

### THE GOOD OLD DAYS OF PERSONAL LIABILITY

It's logical, then, that placing more of bank losses "directly on the shoulders of bank managers," as Koudijs puts it — in the form of increased personal liability — might result in more responsible decision-making and lower the likelihood of large-scale negative outcomes like the Great Recession. In fact, liability clauses in pre-1930s U.S. banking put the bankers at great personal risk if they made unsafe investments with their depositors' money.

"We've basically done away with personal liability in banking since then," Koudijs says. "Now the debate is whether to bring it back."

The researchers studied the New England banking system of the 1870s, comparing the actions of bank presidents who were personally liable for the risks they took with those who were not.

The difference hinged on bankers' marital status. Before the mid-19th century, husbands legally had unconstrained access to their wives' assets, including cash, securities, and others. Thus, any claim on a husband's assets extended to his wife's property as well. But laws passed during the 1840s and 1850s protected a wife's assets from such seizure, which limited a married couple's overall liability in the face of a financial claim.

THE SIDE BENEFIT OF SELF-PRESERVATION **Bankers take better care of depositors' funds when their own wealth is at stake.**

Michael Nicholson/Corbis via Getty Images

## DOUBLING THE PAIN

Those legal changes had significant implications for bank managers, largely because of something called "double liability," a rule that put bankers at risk of losing up to double the value of their equity in a bank. For instance, if a banker had invested $10,000 in a bank and it failed, the banker would lose that amount plus up to $10,000 more if regulators needed it to pay back depositors.

As large bank shareholders, most bank managers thus stood to lose much of their wealth if a bank failed. But the new marital-property laws changed the extent of personal liability significantly: Bankers who'd been married before the legislation still faced the potential loss of their household assets, whereas those married after the rules went into effect faced less liability because their wives' assets weren't subject to seizure.

The contrast enabled Koudijs and coauthors to test whether bankers with less skin in the game took more risk than their exposed peers — using such measures as willingness to take on debt and likelihood of making riskier loans.

Sure enough, bankers with less liability took greater risk. The research also showed that the risk-taking had negative effects on bank performance. "In late 1873 [just after the study period], there was a major financial crisis," Koudijs says. "Banks that took on greater risk performed worse during the crisis. They lost more money and faced a larger outflow of deposits than other banks did."

## THE CASE FOR CLAWBACKS

The findings support the modern-day argument for increased liability for bankers. The challenge remains how best to implement such measures. Clawbacks of bank executive bonuses — or the forced return of rewards already paid — in the case of poor bank performance have been suggested during legislative debates but not implemented. Currently, only instances of clear wrongdoing, such as fraudulent activity, trigger clawbacks.

Part of the problem, Koudijs says, is that it's not clear how much personal liability to impose and whether there's such a thing as too much liability. "An argument has been made that increasing liability excessively will hamper healthy risk-taking," he says. Koudijs and fellow researchers are studying this question by linking businesses in 19th-century New England to their lenders, to see how the banks' risk-taking affected business practices such as innovation (e.g., substituting steam power for water power).

"We're trying to understand the right amount of liability to impose," Koudijs says, "but it's a tricky problem and one that will always run into political interests." Δ

**Peter A.E. Koudijs is an associate professor of finance at Stanford GSB.**

HOSPITALITY

# They Take an Expansive View of Success

## How two Stanford GSB classmates built a pair of thriving mountain resorts while helping at-risk urban kids.

BY MARTIN J. SMITH

**Lee Zimmerman** left Stanford Graduate School of Business with an MBA in 1994, but no real passion for business.

"I couldn't find anything I was excited to do in the business realm," he recalls. "For whatever reason, it just felt hollow when I looked at business opportunities."

But he'd been inspired by Jim Thompson, who directed the school's public management program, one of the nation's first business school nonprofit leadership training grounds. Zimmerman decided to work with a nonprofit, and the experience convinced him to find a way to blend his business education with his altruistic inclination.

In 2001, Zimmerman teamed up with his former Stanford GSB classmate **Brian Anderluh** (also MBA '94) to buy the Evergreen Lodge near Yosemite National Park with the idea of creating a for-profit social enterprise company. Starting with 18 cabins, they expanded the 20-acre facility in 2004 and 2009 into a resort that now includes 90 cabins, a tavern, a recreation center, a saltwater pool, and outdoor game areas, among other amenities and services.

Their second property, Rush Creek Lodge, opened in June 2016 one mile from the national park entrance. Rush Creek offers lodge rooms, suites, and villas and uses graywater recycling systems and solar panels to minimize its environmental impact.

Both businesses were built around a self-funded social program that employs high-potential young adults, mostly from urban San Francisco and Oakland, who work for about four months as full-time paid interns in various departments at the lodges. Those interns get job training, exposure to wilderness experiences, and assistance from program staff in planning educational and career steps to help them "build momentum in their lives and realize their fullest potential."

**How did the partnership with Brian begin and evolve?** We actually are both from Chicago and we met at an event for people from the Midwest who were headed to the business school. We ended up becoming roommates, then roommates after business school as well, and eventually business partners. It was all Stanford GSB driven.

**Starting a business is a big leap from rooming together.** I was in the public management program, and Brian was more of a generalist. Neither one of us was focused on where it would lead us. I had a hospitality background before I came to business school. After undergrad, I worked for three years with a management company that ran the Grand Canyon concessions and other national park–type assets. I liked hospitality but didn't know what I wanted to do with it. We'd both been involved in fast-growth, venture-backed companies and decided to step off that career path and focus on finding more meaning in our work, being more hands-on and growing something more organically.

**Where do you think that impulse came from?** I went to business school because I wanted to have an impact in life and do something meaningful, but I didn't get exposed to socially minded things until I got there. After graduation, I began working with one of the early social enterprise nonprofits, Juma Ventures, in San Francisco, which provides a combination of jobs and social service support for urban youth. Juma later wanted to expand its model, and Brian and I were excited by the idea of creating a for-profit business that could self-fund a social program. We looked for the intersection of what would be high-impact for young people, what we were capable of doing well, and what would be profitable.

**Did your nonprofit experience offer any meaningful lessons?** I learned that if you're running an employment program, you have to work with people who are job-ready. You can have the best of intentions, but if they have an addiction or are homeless, they can't even think about a job yet. They have to be ready to look ahead and make plans. I also learned that you need a business that has enough scale and enough profit margin that you can afford to absorb the costs and inefficiencies of running such a program. Knowing those things helped us make better decisions, so we didn't blow up the system while we made early mistakes.

**Then along came the chance to buy Evergreen Lodge.** Exactly. We had a friend who knew about this mom-and-pop lodge that operated only four months a year. The lodge was too small to interest the big guys and too big for smaller players, so it was kind of a sweet spot for us. We liked the idea of providing a variety of jobs for young people, and we loved the out-of-urban element so they could experience things they otherwise never would have. That truly drove the business we ended up acquiring.

**You financed the Evergreen purchase with money from investors and small business loans. Was everyone on board with the idea of a social enterprise?** In initial talks with banks, we included our youth program as a line item. But that was too scary for them. It didn't make sense and raised questions, so we hid it by burying the program expenses into a general administration line. Regarding equity investment, we eventually found a set of progressive-minded investors who were excited about getting a combination of financial and social returns. About 65% of the financing came from debt and 35% from equity.

**Did your investors' risk pay off?** We structured it to be a long-term hold — so we could continue our employment program — that would pay meaningful dividend-style returns on an annual basis. We designed the investment so that once we had enough cash flow, we'd refinance and return to investors their entire initial investment in a lump sum. That's separate from the dividends we'd been giving them. Afterward, they'd retain their ownership interest in the lodge and continue to receive ongoing distributions. It was a way to recycle capital without being forced to sell the business.

BRIAN ANDERLUH (LEFT) AND LEE ZIMMERMAN

**"When you put your money where your mouth is in terms of caring about people, you attract and retain great people."**

The plan worked. We returned all originally invested capital in 2012, and we continue to share the cash flows with our investors every year. So investors got their money out, didn't lose any ownership, and are able to redeploy their capital elsewhere.

**Did any of them redeploy it into Rush Creek?** Virtually all did, which was a great vote of confidence in us and our model. The timing was good — we returned their original investments just as we were about to begin financing for Rush Creek. We were able to say, "Hey, we did what we said we were going to do 10 years ago, and you're still getting these dividends, and we're helping a lot of young people each year, so ..." It was easy for investors to get excited about Round Two.

Free Range Puppies

**Over the years, has the youth program been a drag or a boon for the business?** A boon — but it's complicated. Overall, it's been the coolest thing that we've done and the thing I'm most proud of. It's complicated because you have to make sure managers are on board, and running a social program within a guest-focused business is difficult. But when you put your money where your mouth is in terms of caring about people, you attract and retain great people. It's helped us create an amazing culture at the lodge. The longevity of so many of our managers speaks to those hidden benefits.

**What values do you instill by exposing urban kids to the wilderness?** Most of these kids live in inner-city neighborhoods. Some have never even been to the ocean, let alone visited true wilderness. We're teaching them that life can be different from what they've had. That's the most important thing we can give these guys — understanding that you do have control over how and where you live your life. Being away from the urban environment is a huge eye-opener for them. Knowing you have options and being unafraid of what's new are great things to learn as they move into adulthood. Δ

**Lee Zimmerman and Brian Anderluh earned their MBAs from Stanford GSB in 1994.**

**MANIPULATION**

# Dating Game 2.0: When Bad News Becomes Good News for Wiley Execs

## A study finds that companies have come up with a new variant on backdating to reap questionable windfalls.

BY EDMUND L. ANDREWS

It's been a decade since scores of corporations became embroiled in the "dating game" scandals over backdated CEO stock options, and most people thought that reforms in the aftermath ended the problem years ago.

But a recent paper, coauthored by Robert M. Daines of Stanford University, has unearthed a new and potentially more sinister version of the scheme — call it Dating Game 2.0 — that replaced the original. Daines is the Pritzker Professor of Law and Business at Stanford Law School and a senior faculty member at the Arthur and Toni Rembe Rock Center on Corporate Governance, which is a joint initiative of the law school and Stanford Graduate School of Business.

Under Dating Game 1.0, a company would surreptitiously backdate its grants of stock options to coincide with recent dips in its share price. If the stock had recently climbed from $10 to $12, the company would backdate the stock options so that executives could still get the shares at $10. A CEO who got options to buy 100,000 shares — which was common — could turn around and resell them for an immediate risk-free profit of $200,000.

Revelations about backdating came to light in 2006 and sparked outrage on many fronts. Federal prosecutors filed criminal charges against more than a hundred executives, convicting 12 and sending five to prison. Companies and executives paid out almost $1 billion in fines and civil settlements. William McGuire, a former CEO at UnitedHealth Group, paid $468 million in civil fines and restitution to his company.

Under pressure from regulators, the media, and investor groups, most companies adopted reforms that seemed to stop the game. One key reform: Companies began scheduling their upcoming option grants well in advance and on immovable dates. On top of that, regulators ordered all companies to disclose all of their option grants within two days of when they occurred.

### MANIPULATING STOCK PRICES

In Dating Game 2.0, however, many top executives appear to be reaping the same kinds of windfalls with a new variant on the original scam. Instead of manipulating the dates of option grants to match a dip in the stock price, companies appear to be manipulating the stock price itself so that it's low on the predetermined option date and higher right afterward.

"I was surprised, because it sounded too cynical at first," says Daines, who teamed up with Grant R. McQueen and Robert J. Schonlau at Brigham Young University. "But we tested for all kinds of benign explanations and none of them fit the data. The unusual stock patterns happen so often, and they exactly fit with the self-interest of the CEOs and senior executives.

**Robert M. Daines is the Pritzker Professor of Law and Business at Stanford Law School and a senior faculty member at the Arthur and Toni Rembe Rock Center on Corporate Governance, a joint initiative of the law school and Stanford GSB.**

istock/dane_mark

Either the CEOs are incredibly lucky or they are manipulating stock prices."

Daines and his colleagues found a remarkable telltale V-shaped pattern in stock prices when they analyzed 1,500 companies that granted options. On average, share prices dipped markedly in the 90 days before a grant and quickly began rebounding immediately afterward.

In effect, this pattern allows top executives to buy low and sell high. It's not quite as risk-free as the original scheme, but it comes close. And it doesn't appear to be a coincidence. Indeed, the researchers identify several techniques by which companies appear to nudge share prices in the directions they want.

## A $100,000 "ROUND TRIP"

Using conservative assumptions, Daines and his colleagues estimate that the new maneuvering provides an average extra payout of just over $100,000 per CEO. That's above and beyond their salaries and the official value of their options.

In the 90 days before the option grant, the average stock generated what analysts call an "abnormal negative return" of 1.9% — that's a return 1.9% below those on shares of comparable companies during that same period. In the 90 days after the option grant, however, the average stock generated an abnormal positive return of 1.1%. Overall, the researchers estimate, the "round trip" from the temporary dip through the rebound produced an abnormal positive return of about 2%.

Coincidence? Not likely, says Daines. The V pattern turns out to get stronger at companies where CEOs have both more incentive and more opportunity to manipulate share prices.

The V was deeper, for example, at companies that awarded above-average numbers of stock options and where top executives had more to gain. It was especially deep, however, at companies that were also hard to value and where company announcements and "guidance" could have a big impact on investor expectations. Think here of a fast-growing technology company, where it's difficult to predict the exact pace of future growth and where the statements of top management can significantly influence investor expectations.

At those companies, the shares had on average abnormal low returns of minus 3.5% before the options were granted and abnormal high returns of 3.4% in the months right after. That's a huge and timely swing for seemingly random fluctuations.

## THE ART OF THE WELL-TIMED DISCLOSURE

So how did CEOs manage to manipulate stock prices so adroitly?

Daines and his colleagues find evidence of several techniques, many of them tied to when companies decide to disclose important new information. In "bullet-dodging," a company temporarily depresses its stock price by releasing negative information before the option-grant date. In "spring-loading," a firm holds back on positive information until after the option date. Sometimes, of course, a company can do both things in the same cycle.

The researchers found concrete evidence for both bullet-dodging and spring-loading in corporate "8-K" disclosures, which companies are required to file when important new developments occur between regular quarterly reports. At companies that issued lots of stock options, the disclosures before an option grant were more likely than not to drive shares down and those that came after an option date were more likely to send prices up. The same pattern showed up with company-issued "guidance" about upcoming earnings and with accounting decisions that effectively shift profits from one quarter to the next. Last but not least, the researchers found evidence that some companies were even massaging actual earnings, such as by increasing R&D costs before an option grant or delaying strategic investments until afterward.

Again, Daines says, it's hard to see this as a coincidence. If the "bad news" before an option grant is genuine, you would expect the stock to continue to do poorly after the options are awarded. But that isn't the case. More often than not, the researchers found, the pre-grant bad news was followed by higher returns.

> **"This might actually be worse than the original backdating scandal. It distorts stock prices for months."**

## A TROUBLING STEP BEYOND THE "DATING GAME"

"This might actually be worse than the original backdating scandal," Daines says. "The original scandal was bad because it suggested that executives might be overpaid, but this distorts stock prices for months. This gives executives an incentive to delay good projects, and that's bad because you typically want to make good investments as soon as you can."

All of this raises a troubling question: If Dating Game 2.0 stemmed directly from the reforms adopted to stop Dating Game 1.0, is there a real solution?

"One of my takeaways from this is that it's really hard to get things right in aligning the incentives of executives and shareholders," Daines says. "We're getting better and better at it, but it's easier to complain about problems than to get things right."

Tim Evans

# World

**“These artists develop deep love and affection**

for their work products and begin to anthropomorphize them and consider them their ‘babies.’ ”

— **Aruna Ranganathan** PAGE 50

ZOOM IN, ZOOM OUT
Sometimes nudging an entrepreneur to pivot is the best way to help a small firm grow.

MARKETING

# Helping Entrepreneurs Grow Small Businesses in Emerging Markets

**While most business research in the developing world focuses on finance, a Stanford professor is testing a different set of interventions: marketing.**

BY STEVE HAWK

REUTERS/Akintunde Akinleye

Many experts believe one of the best ways to improve economic conditions in emerging markets is to help entrepreneurs — especially those running small businesses — grow.

These small, often informal, firms include dressmakers, restaurants, auto repair shops, metal fabricators, cleaning services — the list is vast and ever-changing. The World Bank counts about 400 million of them in Africa, Asia, and Latin America, where they make up about 60% of the jobs and 40% of the GDP.

Stephen J. Anderson is intensely interested in improving the performance of these entrepreneurs. An assistant professor of marketing at Stanford GSB, he knows that even a slight overall bump in growth among this class of firms could translate to greater prosperity for millions of small-scale entrepreneurs and the employees they lead.

Anderson has focused much of his research the past six years on sub-Saharan Africa, where he has overseen several multi-year field studies involving thousands of small firms — all with the aim of measuring the effects of marketing-based interventions.

In one stream of work, he's analyzing the impact of improved marketing capabilities. His interventions include marketing skills training in South Africa, customer resilience strategies in Uganda, insourcing and outsourcing marketing expertise in Nigeria, marketing analytics in Rwanda, digital marketing tools in Kenya, and external customer-facing modernization in Mexico.

In a second stream of work, Anderson is examining interventions focused on product development, including business model innovation in Uganda, locked loans in Ghana, the lean startup method in Kenya, professional service platforms in Nigeria, and scaling minimum viable products in Peru.

He spoke to *Stanford Business* recently about what his studies are revealing and exactly how they work.

**What's the biggest challenge that small-scale entrepreneurs face in emerging markets?** Lots of people assume that it's access to finance — that they just need money. Something like 80% of the firms I study lack access to credit. And surely that is an important constraint to growth. You do need cash. But you also need customers. You have to identify or create a market — where people

**Stephen J. Anderson is an assistant professor of marketing and the John A. and Cynthia Fry Gunn Faculty Scholar for 2018–19 at Stanford GSB.**

will actually pay you money in exchange for your offering — before the financial capital can be effectively invested in the business. You have to understand what different customers want and how you're going to address those preferences. Do you stick with your existing design or service, do you tweak it, or do you maybe offer something entirely different? How do you differentiate your business from competitors? Are you targeting a large enough segment of customers? And then once you do that, how do you scale revenues and sustain profitable growth?

**Those are universal issues for all entrepreneurs, though, yes?** Right, but it's not typically something people lead with when they come in to help businesses in emerging markets. Often when an NGO wants to help, it's just, "We've got to come in with money. Money's going to solve it." In recent years, there's been a lot of great work on small firms and how to help them grow, but it's tended to focus on either finance or operations. The marketing aspect has kind of been ignored.

**What kinds of marketing interventions are most effective?** That's what I'm trying to figure out. I have a few projects completed now and seven more still in progress. My hope is at the end of a study — each one usually takes four years from inception to data completion — we'll have one important takeaway about the role of marketing and entrepreneurship. Most often, it is *how* a given marketing intervention increases performance that offers the key insight.

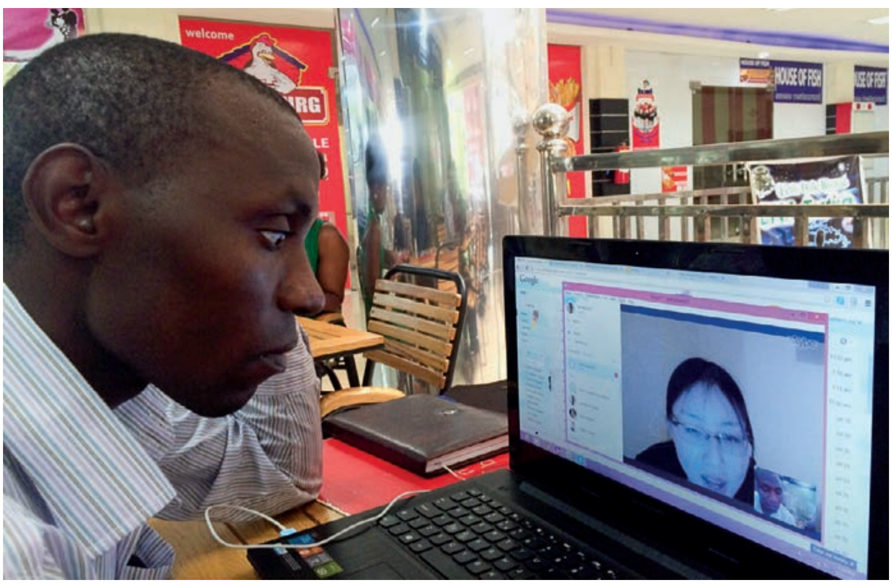
**One of your first studies measured the impact of marketing skills training in South Africa. How did that work?** That project was the start of my work on building marketing capabilities. It involved recruiting hundreds of entrepreneurs across greater Cape Town, then randomly assigning some to a marketing course, others to a finance course, and the remainder to a control group that did not receive any training. To design and deliver a strong intervention, we teamed up with a local NGO to recruit successful businesspeople from the area who wanted to give back to their community. They were experienced managers, most with professional degrees who knew that community and that economy. They met the small-scale entrepreneurs in classrooms on a weekly basis for 10 sessions of marketing and sales training (or finance and accounting classes for those in the other experimental group). The courses were both intense and practical, with an emphasis on changing practices. Dividing the training into two separate interventions not only allowed entrepreneurs to focus on building one business skill at a time, but also gave us the chance to gain an understanding of how each one worked.

**What was the primary finding?** With my coauthors [Rajesh Chandy of the London Business School and Bilal Zia of the World Bank], we found that either type of training can increase profits, but in different ways. The entrepreneurs who got marketing training tended to improve and become more profitable through a "growth" focus. They increased sales, purchased extra stock, added more part-time staff, that kind of thing. By contrast, the finance group increased profits by adopting a greater "efficiency" focus. They didn't increase sales substantially, but they did decrease costs and improve the conversion of inputs to outputs. They also implemented more finance and accounting practices.

**Any other takeaways from that South Africa study?** We looked at which subgroup of firms benefit the most from marketing training. In line with developing a growth focus, we found that building marketing and sales skills really seemed to help entrepreneurs who lacked exposure — meaning they'd never lived or traveled outside their existing town or worked for a larger company, so they hadn't been exposed to different products or market contexts. You know, many of these places are quite insular. Social and geographical mobility is constrained, and gaining broader exposure is a challenge. So they're the ones who tended to get the biggest bang for the buck from marketing training.

**How did your Uganda study differ?** The Uganda project was the beginning of my second research stream, which examines the role of product development. It looks at business model innovation — also known as pivoting — and whether firms in emerging markets can shift how they create and deliver customer value. For the intervention, we used a one-on-one international coaching model that facilitated connections across markets. Through our partner, we recruited hundreds of professionals in advanced markets all over the world, about 40 different countries. The coach could be an MBA grad in New York, or someone working for Deloitte in London, or someone with valuable business experience who wants to help budding entrepreneurs. The coaches Skyped with local entrepreneurs from around Kampala once a week or every other week for six months to help them come up with ways to shift the direction of their businesses. While there is inevitably some knowledge transfer, it is difficult to effectively train someone on the other side of the world. But that was OK. We were more interested in how to stimulate pivots and then measure their impact on sales. It was less about skills and more about changing product-related strategies.

**Can you give a specific example of how that might work?** Say there's someone with a shop that sells DVDs and prints photos. But after analyzing the market and gathering feedback with the guidance of her coach, she realizes that what her customers really need is someone to




In one of Anderson's studies, entrepreneurs in Uganda received strategic marketing advice by Skyping with coaches from advanced markets.

Courtesy of Stephen J. Anderson

**"Entrepreneurs who received international coaching increased their monthly sales in the range of 25%."**

repair their electronic equipment, and that she has that capacity. Or maybe she learns that people are capturing many more short videos (as smartphone usage increases in Africa), but they have no way to edit, compile, and store them. So the entrepreneur shifts focus and dedicates resources to offering services that better solve a growing problem in the market. She performs a "customer need" pivot. Her coach helped her rethink how to create value for customers and deliver it.

**And the coaches have the experience to help them see that?** Exactly. Sometimes the entrepreneurs just need a nudge from someone who's looking at the business from a different viewpoint, who can get them to go out and talk to their customers, or reexamine their product economics, or see what their competitors are offering, or figure out what else they could do with the materials, equipment, and skills they already have.

**This is a woman selling DVDs on the street?** No. Across my studies, I try to stay away from subsistence-level vendors selling stuff on the side of the road. While it's impossible to get large samples — which is a must for these field studies — filled with transformational entrepreneurs, we at least *try* to avoid recruiting "survivalist" entrepreneurs. We make sure they're operating out of a physical structure or building or office, so they're a little more established and serious.

**With some potential to scale?** Perhaps. Or at least with the motivation to grow, even if it's just creating a job or two. That's one of the trickiest parts of this research: How do you target and screen the entrepreneurs for these types of interventions? We're looking for the cream of the crop.

**How does that work?** We start with thousands of businesses. It's the same for most of my studies. We find them by going door to door. It's a massive operation. There's a research manager, field coordinators, and a team of 20 to 30 enumerators on the ground. We divide a city into market regions and then hit every business we can find over the next two to three months. I call it the "PTP," or pound-the-pavement, approach. Often the small firms in these countries don't have postal addresses, so we also capture GPS coordinates. If they turn out to be a good fit for the study, it's critical that we're able to find them again.

**What kind of businesses?** You might have a tailor shop, maybe someone who's designing jewelry. Lots of restaurants. Grocery stores. Delivery services. Printing shops. Internet cafes. Dressmakers. Some are small manufacturers, like metal fabricators or someone who works with leather. We start out by recruiting thousands of firms and narrow that down to the top 1,500 or so.

**And how do you decide who gets the marketing intervention?** Several variables are used to construct what I call a GPI, or growth potential index. For example, we want to know if they have any skin in the game, so how much startup capital did they invest? Do they have permanent employees? Do they have three months of utility bills to show they're an established business? Prior education? And so on. We score and rank them and move the top 1,500 to the next stage. Out of those, we might find 1,200 who are willing to complete our baseline survey and also remain committed to participating in the intervention. This group gets interviewed again, and only 75% of *them* might pass this last screening step. So that leaves us with around 900 firms. This final sample is then randomly assigned into a treatment group (offered the international coaching intervention) and a control group (not offered any intervention). The intervention typically runs for six to nine months.

**What about measuring the impact — how do you do that?** The research team [which includes Pradeep Chintagunta of the Chicago Booth School of Business and Naufel Vilcassim of the London School of Economics] conducts follow-up audits at about 12 months and 18 months post-intervention. I'm still analyzing the data from Uganda, but so far it appears that entrepreneurs in the treatment group were much more likely than those in the control group to pivot or implement a business model innovation. And, in turn, we are seeing that the entrepreneurs who received international coaching increased their monthly sales in the range of 25%, compared with those who did not get any coaching.

We also created a framework for measuring different categories of pivots.

**What were some of these pivots?** Well, in addition to the "customer need" pivot described earlier, another type is called "zoom in." Let's say you have an auto mechanic, and maybe he's doing repairs for anyone who comes in. Whatever they want, he does it. He has no focus. He offers a broad mix of services— some are profitable, others are not. Then he gets a coach who starts pushing him to analyze what services are the most popular and most profitable, both with his current customers and other potential customers who drive vehicles in the area. He realizes that the things people want the most are tire rotations and oil changes, done as quickly as possible. So he narrows the focus of his business and sells only the subset of offerings that tend to be in the highest demand. Customers are happy because they get reliable, fast, affordable auto services, and the entrepreneur is happy because his firm increases sales.

Or maybe there's a tailor who started off just making traditional African dresses. Then throughout the coaching intervention she discovers that her customers' husbands also want similar styles of clothes made out of the same materials. And so she implements a "zoom out" pivot and expands her product portfolio by making clothing for men as well.

Another pivot type could be identifying a new sales channel. Say there's an entrepreneur who runs a drink shop that sells specialty coffees and juices. He sits inside the shop waiting for people to come and buy from him. He's complacent. But along comes a coach who highlights that this is not a good strategy for growing sales and encourages the entrepreneur to explore other ways of getting his products into the market. Eventually the firm hires a bunch of guys on *bodas* [motorcycle taxis] to go out and deliver the drinks door-to-door, which can now be ordered via phone, text message, or email. The entrepreneur expanded his sales through a different channel.

**It seems that a lot of these lessons would apply in Palo Alto as much as they would in Uganda.** Well, these are not your typical Silicon Valley entrepreneurs whom we view as being transformative. It's rarely as glamorous and flashy as that. But yes, even though my research takes place in emerging markets, I hope it leads to general marketing lessons that apply to firms across markets. We're all just trying to create and deliver value to customers. ∆

MANAGEMENT

# How to Tap Skilled Managers in Villages Where Chiefs Still Rule

## Identifying and promoting talented technocrats outside traditional hierarchies can catalyze local economic development.

BY SACHIN WAIKAR

Shortly after the new millennium began, before she became an associate professor of political economy at Stanford GSB, Katherine Casey discovered a difficult global reality firsthand.

The foreign-aid donations she observed while working for the World Bank in Sierra Leone didn't always have the positive impacts on the ground that donors claimed or hoped for.

Specifically, while large-scale efforts often improved infrastructure, they typically fell short on a key dimension: bringing greater democracy and inclusiveness to decision-making in rural areas. Here, development efforts encountered a deeply embedded cultural obstacle in the form of village chiefs, who typically held lifelong positions of power with few institutional checks on their authority.

In addition to ruling largely without democratic process or accountability, village chiefs tend to be much older and less educated than younger community members, especially those benefiting from recent investments in education in emerging regions.

"With the increased efforts to provide education," Casey says, "young, smart, well-educated people were going back to their communities. Would the chiefs leverage this new talent [to improve development] or sideline them because they're not part of the ruling elite?"

Finding effective development routes is crucial in countries like Afghanistan, Liberia, and Sierra Leone, where most rural communities fall beyond the reach of central state organizations and must provide a variety of public goods and services for themselves.

Sierra Leone, for example, endured 12 years of civil war ending in 2002, after 30 years of autocratic rule. Worse, the "chieftaincy" social structure works *against* progress. Related research shows that the most powerful chiefs often oversee communities with the poorest development outcomes.

### SKILL VERSUS VOICE

Casey and collaborators set out to study two different approaches to development in such areas. The resulting paper, "Skill Versus Voice in Local Development," coauthored with Rachel Glennerster (UK Department for International Development), Edward Miguel (University of California, Berkeley), and Maarten Voors (Wageningen University), compared typical large-scale community development efforts with a new, more focused strategy that identifies and encourages the use of talented "technocrats" who are not part of the ruling elite and thus might otherwise be ignored by chiefs.

Casey and collaborators systematically tested both approaches in a set of 236 villages in Sierra Leone.

The first strategy, which has become very popular with foreign aid donors, is commonly known as "community-driven development." Essentially a long-run effort to democratize local institutions, community-driven development provides communities with financial grants to build public infrastructure and requires residents to make decisions in a more democratic and participatory way.

The second, more customized intervention identified high-skill community members, or "technocrats," and encouraged chiefs to entrust them with development-related work. To find untapped managerial talent outside traditional hierarchies, the researchers asked community members to nominate capable individuals, then administered a skills test assessing individuals' ability to create and manage local development projects. The research team nudged communities to place

*Photograph by Cayce Clifford*

KATHERINE CASEY **Restructuring embedded rural hierarchies is a serious challenge.**

high-potential managers in lead roles writing real grant proposals for submission to an infrastructure grants competition run by the government.

"The team made a public display of saying this person won the leadership 'lottery' and had the highest score on our test," Casey says. "The chiefs weren't obligated to pick them, though."

> **"Left to their own devices, chiefs fail to delegate to high-skill community members."**

## SKILL WINS

The research team evaluated both approaches and compared them with the status quo of traditional rule, via randomized control trials. One clear finding was that under the status quo, chiefs typically refused to cede decision-making authority. As the researchers write, "Left to their own devices, chiefs fail to delegate complex project tasks to high-skill community members, even when it appears to be in the community's interest to do so."

That changed when objective skill-related information entered the picture. Many chiefs, the study found, delegated grant-writing to high-skill members when publicly encouraged to do so.

Importantly, those who scored well on the management capabilities test produced much better grant proposals — as judged by independent experts — and were more likely to win a grant from the government. Providing brief management-skills training improved performance even further.

The community-driven development approach, in contrast, created fewer detectable improvements, even though it is an order of magnitude costlier than the skill intervention. Use of more democratic processes in public deliberations, for example, resulted in no improvement on key measures. And while chiefs in those villages were marginally more likely to delegate to high-skill residents, the strategy didn't affect grant-competition performance.

"Community-driven development was supposed to be transformational," Casey says. "The idea of empowering the poorest people to take more control over local governance was inspiring. But research showed it wasn't having as much effect as everyone hoped. Not surprisingly, it turns out that restructuring political hierarchies that have been in place for a very long time isn't something outsiders can do easily."

Ultimately, the skill approach proved a high-impact, low-cost way to catalyze development in underserved regions. That's not to say community-driven development is without value, Casey says: "It delivers sustainable value in terms of public goods, but less in terms of improving democratic processes. Giving more voice to poor people is still an important goal; we just need to work harder and be creative in finding other ways to achieve it." ∆

**Katherine Casey is an associate professor of political economy and the Kevin J. O'Donohue Family Faculty Scholar for 2018-19 at Stanford GSB.**

CULTURE

# What Lies Beneath

## As businesses go global, it pays to understand the beliefs underpinning values and behavior that seem strange.

BY MARTIN J. SMITH

Scotty McLennan uses an iceberg metaphor when explaining the rationale for his Stanford GSB course *Global Business: Unspoken Rules of the Game*.

When doing business around the world, learning and honoring the way people in other countries greet one another, or give gifts, or even gesture, drink, and speak, is just the tip of a cultural iceberg. But understanding the values that lie beneath those behaviors — the attitudes, beliefs, ideologies, and philosophical or spiritual perspectives — can enable you to negotiate the iceberg rather than plow into it.

"We see things above the surface that look like business etiquette but which underneath are really driven by some centuries-old cultural ethos. And under that there's this fundamental philosophical and religious environment that something like Confucianism provides in China, or Protestantism provides in the United States, or Islam provides in the United Arab Emirates," says McLennan, who teaches about the moral and spiritual aspects of business leadership. "To me it's rather obvious, but it's not understood by many people."

McLennan received both his law degree and his master's in theology from Harvard in 1975, the same year he was admitted to the Massachusetts Bar and ordained as a Unitarian Universalist minister. He was the dean for religious life at Stanford from 2001 to 2014 and the chaplain at Tufts University from 1984 until 2000. His books include *Finding Your Religion: When the Faith You Grew Up With Has Lost Its Meaning* and *Jesus Was a Liberal: Reclaiming Christianity for All*.

Worth noting: He also was "Doonesbury" cartoonist Garry Trudeau's roommate while an undergraduate at Yale and is the model for the minister character the Rev. Scot Sloan in Trudeau's Pulitzer Prize–winning comic strip.

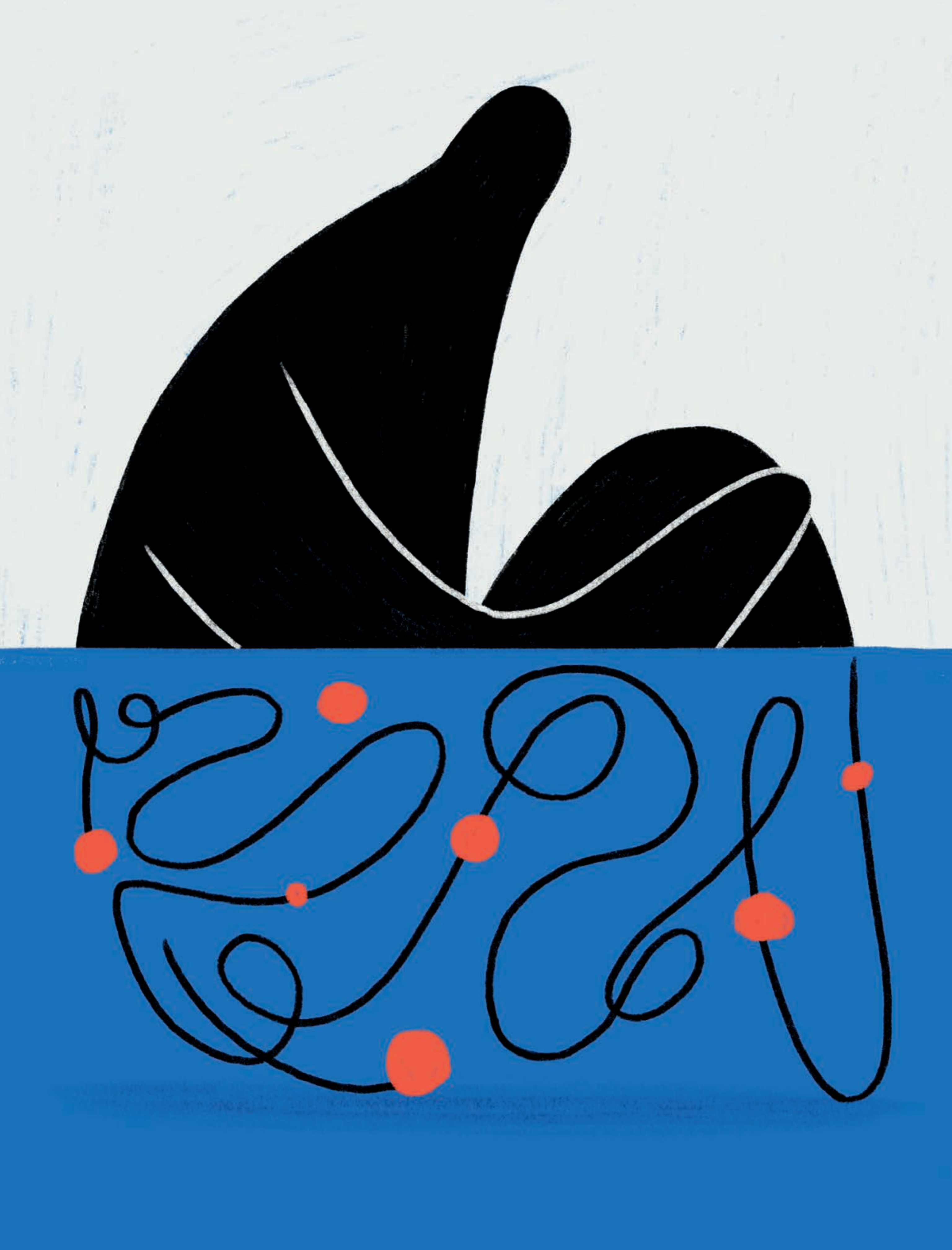
**Why is it important to understand underlying values and spiritual perspectives during global business interactions?** As our students go out around the world — one day they're in China, the next day they're in Brazil, the next day they're in the UAE — the question becomes how do you penetrate those worlds. Obviously, they need to have local colleagues they can work with, but they also need to understand that there is, in fact, this cultural iceberg.

**Can you cite a specific example of how that might play out in the real world?** Mexican managers doing business in the U.S. often are quite surprised by a kind of coldness on the part of American managers. For Mexicans it's very relationship-oriented, getting to know somebody personally, while for U.S. managers it's much more, "Let's get down to business." And, "We need to keep our business and personal lives separate." Americans have a more individualistic and competitive spirit, a Protestant ethic. Mexican managers have a Catholic ethic. Now these are both Christian subdivisions, but they have a very different orientation. To Mexicans, Americans seem to be clock-obsessed and schedule-oriented and sometimes just downright unfriendly. But if American business people go to Mexico and don't take the time to establish strong personal relationships, they don't do as well.

**Can you cite an example from outside North America?** Americans sometimes see the Chinese as nepotistic. They seem to be operating too closely with their relatives and families, giving advantages to their families. But from the Chinese perspective,

**Scotty McLennan is a lecturer in political economy at Stanford GSB and the former dean for religious life at Stanford University.**

*Illustration by Jocelyn Tsaih*



it's immoral not to prioritize your family members and people who are part of your circle. If you can understand the Confucian world and how it's structured in relation to hierarchy and leadership, you get a much better understanding of how to do business in China, just as they try to understand the arms-length and rules-based approach of Americans.

**Can you name a global company that's navigating well around the icebergs?** Say you're Emirates airline in the UAE and you want to buy new airplanes. Do you use Islamic finance instruments, which are not interest bearing, or do you use traditional Western finance? There's a whole world of Islamic finance that structures loans in ways that do not bear interest. They're workarounds, but from an Islamic point of view they're consistent with Koranic principles that do not allow usury and which regard traditional Western loans as usurious. So when Emirates uses Islamic finance methodology, does that help them? I think it does. They still use Western interest to some extent, but I think by Emirates taking seriously and struggling with the financial and cultural realities of Islamic finance, that can make a positive difference in their business success.

> **"Literature can help people truly feel their way into another culture. Even books from the 1950s or '60s can be helpful."**

**Are most people aware how such underlying cultural values affect their behavior?** Any entrepreneur, regardless of which country or culture they come from, has a worldview that has been learned by living in a culture, by being brought up by their parents, by going to schools and mosques and temples and churches, and by the way their business environment has been structured. A lot of that is often unknown to them and a surprise when they begin to work internationally and realize that other worldviews are quite different. Your own perspective and values are going to be operative whether you know it or not, so it really behooves you to know what those are.

**How do you teach that kind of awareness?** I often use a framework called the Potter Box, which is a model that Harvard ethicist Ralph Potter put together for making ethical decisions. It explains that any decision has four operative factors: facts, loyalties, values, and worldview. Those four quadrants are always operative, but the one we work with most easily is facts. We're less conscious of all of the stakeholders our decisions may affect. We're also probably unaware of the ethical reasoning, which is always used in any decision-making. And then behind all of it is a worldview that I describe as the bottom of that cultural iceberg. That worldview often dictates which mode of ethical reasoning you use and which loyalties you're going to prioritize. It also skews your view of the facts. Values are very much at the core of what an entrepreneur does as he or she sets out to create a new product or service. But a lot of it can be missed. It's unconscious and unspoken.

**You've talked about basketball coach Phil Jackson as someone who brought a Zen Buddhist ethos into the world of sports. Are there examples from the world of business where you think a similar approach succeeded?** Jeff Weiner, the CEO of LinkedIn, is a good example. He grew up Jewish, became increasingly agnostic, but then became quite enamored of the Dalai Lama in terms of how to live a joyful and fulfilled life. He has been able to develop an understanding of compassionate business, which he tries to apply in his life and train his employees to use. It's quite different from what other managers do. His goal is to always keep in the forefront the importance of respect for other people, whether they be colleagues, employees, suppliers, or customers, and to use Buddhist notions of mindfulness. To be fully present in a situation, to understand what's going on the room, you have to be present to yourself. And then he has a vision of compassion that he thinks LinkedIn can provide worldwide. That creates a different feel for that company.

**How can students adapt to inevitable cultural changes?** Literature can help people truly feel their way into another culture. Read good novels and short stories and plays by great authors from those cultures to help you see that culture lived out through families and political structures. The reality is that, at the basic value level, things don't change that quickly. Even books from the 1950s or '60s can be helpful.

**In 2013 you tweeted a quote: "We can start a culture of peace and tolerance and I believe we need it more than ever before." How do you feel about that message in 2018?** I'm concerned now about the level of divisiveness we have in American society, but it's also a worldwide phenomenon. We're not doing a good job of finding common values anymore that we all hold and can be clear about. In the U.S., we say in the Pledge of Allegiance that we're all one nation, indivisible, and care about liberty and justice for all, but it's incredible to me how divisive we have become and how much we've destroyed the basic institutions that support those values. So we need tolerance more than ever so we can talk across differences to find the common values that are fundamental to who we are. ▲

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PRICING

# What's the Value of Labor When It's a Labor of Love?

**Artisans who find meaning in their masterpieces often charge less to connoisseurs.**

BY KATIA SAVCHUK

When Aruna Ranganathan began touring handicraft markets in India seven years ago to prepare for her dissertation research, she noticed a puzzling paradox: Even though she was visiting from abroad, artisans offered her deep discounts on their wares. Meanwhile, her assistant, who was a local, usually paid more for the same goods.

What explained these peculiar pricing decisions? Ranganathan, now an assistant professor of organizational behavior at Stanford GSB, spent a year figuring out the answer.

Her conclusion: Audience matters. When artisans met buyers who understood and appreciated their work, they cared less about financial rewards. When they dealt with shoppers whom they considered less discerning, they prioritized monetary gains. In Ranganathan's case, for example, the vendors noticed that she wore handcrafted jewelry and clothes, whereas her assistant typically wore mass-produced clothing and plastic jewelry.

The driving force behind this behavior, which Ranganathan describes in a recent paper in *Administrative Science Quarterly*, is something she calls "product attachment."

"These artists develop deep love and affection for their work products and begin to anthropomorphize them and consider them their 'babies,'" she says. Since a discerning buyer is more likely to take good care of the item, she argues, the craftperson is willing to charge less if it means their masterpiece will find a good home.

## "THE MORE I SWEAT, THE MORE I LOVE"

To study this phenomenon, Ranganathan conducted research in Channapatna, a city in southern India known for its traditional wooden jewelry and toys. First, she spent eight months interviewing and observing artisans and traders. Her fieldwork confirmed that artisans identified strongly with their work, while traders — who sold the same products but weren't involved in their creation — did not.

Next, she trained six women, all in their early 20s, to buy standard pairs of bangles from nearly 80 artisans and traders. Two of the buyers were locals wearing handmade products, two were foreigners in Western clothing, and two sported plastic jewelry and synthetic handbags. Based on more than 450 transactions, she found that artisans offered well-below market prices to foreigners and those wearing handmade products, who were seen as more knowledgeable, while charging the third group above-market prices. Traders, on the other hand, charged everyone based on their perception of what the buyer could pay.

Finally, Ranganathan surveyed nearly 100 artisans and traders to learn more about how product attachment works. She found that attachment grows depending on the extent of artists' involvement in the production process, which for some woodworkers involved several steps, such as cutting and seasoning the wood, shaping it on a lathe, then sanding and assembling the finished pieces. The attachment was particularly strong for those whose craftsmanship included the more artistic processes of lacquering and painting.

"The more I sweat, the more I love," one craftsperson told her.

She also noted that many artisans go so far as to "deify" their craft by becoming "emotionally and spiritually connected" to the effort. As one of them told her, "Work is god for us." Some craftspeople made offerings of flowers and incense to their tools.

Most artisans were even willing to sacrifice personal safety out of respect for their work.

**THE DEIFICATION OF CRAFT** “Work is god for us,” one artisan told researcher Aruna Ranganathan.

Yawar Nazir/Getty Images

Despite sawdust and wood splinters on the floor, every artisan she met went barefoot because it was sacrilegious to wear shoes in a place of worship. And almost none wore safety glasses to protect their eyes from splinters and wood chips — not for lack of access or knowledge, but because it blocked them from observing their work as closely.

## LESSONS FOR POLICYMAKERS

Ranganathan’s findings have significant implications for labor market policy. Artisans are the second-largest occupational category in India, and globally more than 40% of workers are in the “creative class,” according to urban studies scholar Richard Florida.

Government programs that assume low-income workers only prioritize economic rewards could miss the mark, Ranganathan cautions. One example she cites is a proposal among Indian policymakers to increase tourism to far-flung artisan locales in order to increase local incomes.

“What my research shows is that just increasing tourism might not necessarily help artisans, since they might consider them discerning audiences and sell at discounted prices,” she says. “Policymakers should think carefully about what drives low-income workers, without assuming it’s always economic, in order to design policy solutions that artisans would actually benefit from.”

Her research holds a good lesson for travelers as well: Buy directly from the artist, and you just might get a good deal. ∆

**Aruna Ranganathan is an assistant professor of organizational behavior at Stanford GSB.**

INVESTING

# Venture Capital in China: It's Still "the Wild, Wild West"

## An uncle's battle with cancer helped Nisa Leung become one of Asia's most successful VCs.

BY MARTIN J. SMITH

The family news from Southern China wasn't good. **Nisa Leung**'s distant uncle had liver cancer. "We were looking all over for good therapeutics for him in China, but there weren't many," says Leung, who graduated with an MBA from Stanford Graduate School of Business in 2001.

At the time, the Hong Kong–based venture capitalist was working at a U.S.–based venture capital firm and "thought it would be great to bring in some U.S.–based medical technologies to help all these Chinese patients." She quit her job and started a company distributing cancer treatments and medical devices in China.

Seventeen years later, she's a managing partner and lead health care investor for Qiming (pronounced Chi-ming) Venture Partners, with offices in Shanghai, Beijing, Shenzhen, and Hong Kong. Qiming manages $4 billion in assets and investment in more than 270 companies.

Prior to joining Qiming in 2006, Leung was cofounder of Biomedic Holdings, with operations and investments in medical devices, pharmaceuticals, and health care services in China. Before that, she was a venture partner at PacRim Ventures in Menlo Park and with Softbank/Mobius Venture Capital in Mountain View.

Leung, who currently sits on the boards of at least nine health companies, was named Venture Capital Professional of the Year by *Asian Venture Capital Journal* in 2017. That same year, Qiming created its first U.S. fund and set up offices in Seattle, Boston, and Palo Alto.

**What sort of value are you looking for when you consider funding a Chinese health company?** We look on the macro side. We're always thinking, "Why are we still using these 30- and 40-year-old drugs? Why are we using these diagnostic tools that have a 50% accuracy rate? Can we develop drugs or diagnostics in China that have a much better efficacy at a cheaper price and with cheaper development costs?" It's really about investing in opportunities where we feel there's a big empty space that needs to be filled and then looking at the entrepreneurs, the management team, the structure. The products are important as well, but I think in the last 10 or 15 years it's been all about investing in the Genentechs of China, the GEs of China, where the whole space is empty and there are lots of comparable products in the U.S., Europe, and Japan. There's not a lot of innovation coming from China yet, but it's slowly changing.

**And Qiming also got into the game early, right?** We're very fortunate to have identified this sector as an opportunity when we did. Through the years we were able to build up a tremendous network of entrepreneurs and people in the field. So it's easy for us to make a phone call to the country head of a big pharma firm and ask for a reference check. The fundamental network we've built up is strong. As a result, many entrepreneurs like to join our ecosystem of health care companies. We're fortunate to have that reputation.

**Are there challenges unique to investing in startups in China, and what advantages do you think you bring to that mission?** That's the thing about doing business in China. It's the Wild, Wild West, but we're exploring new ground all the time. What was very useful to me was that I'd already gone through the red tape, the bureaucracy, the difficulty of hiring from multinationals for jobs in China. So the ability to talk to the government and understand what is happening in their world makes a huge difference. The majority of VCs do not have deep operating experience in China and definitely not entrepreneurship experience.

**Are there things about investing in China that American investors might find unfamiliar or even startling?** How the entrepreneurs behave is very different. Most of our companies, our entrepreneurs still own a good part of their company because they really bootstrap. And by the time they go public, they own a lot more of their company than founders in the U.S. We almost never replace a CEO or a founder in China, whereas in the U.S., the VCs regularly replace founders and bring in professional CEOs. Because of this, we also work very closely with the founder in a long-term way and our relationship is very close. And of course, we don't see as many serial entrepreneurs.

**Do you have specific red flags that make you pass on potential investment opportunities?** We're always looking for companies that want to make a difference. If we ever detect an entrepreneur who wants to make a quick buck, to take the company public and get out, that's not the type of business we like to invest in. As a case in point, there's a company that recently made a lot of news about children's vaccines in China. I looked at that company and decided to pass because of the quality of the products and reputation of the chairperson, and also the questionable transfer of state-owned enterprise assets to a private company. But I still believe we need to have a Chinese vaccine company that can develop world-quality children's vaccines. China can't afford the imported products, but Chinese drug companies don't have the ability to develop world-class vaccines at a reasonable price. So what to do?

**What did you do?** We decided to invest in a company called CanSino, which stands for Canada and China. The four founders were senior executives at American and Canadian vaccine plants. Their lives were very cushy, but they wanted to do something for their home country. So they moved back to China and started this vaccine company. Right now they're conducting clinical trials on 7 of

*Photograph by Amanda Kho*

NISA LEUNG
**"We've very fortunate to have identified this sector as an opportunity when we did."**

the top 10 children's vaccines. It's the first time a company has ever developed a whole suite of children's vaccines with no live virus in them. It's very exciting.

**What other type of health care companies are you backing?** All along I told people that it's very difficult to invest in mobile health in China the way they do in the U.S., because the health care systems in China and the U.S. are so different. But we did invest in a couple of mobile health companies, including one called WeDoctor. Many people who use mobile health are from rural areas with no doctor access.

**That seems tailor-made for the Chinese market.** The year before we invested, WeDoctor booked 100 million doctor appointments in China. It received the first internet hospital license in China and probably the world [to book appointments, do follow-up consultations, prescribe drugs, and operate physician-staffed clinics]. Three years later, it's now the largest internet hospital in China. As of April of this year, WeDoctor was seeing 70,000 patients a day through its internet platform. It's a very good way to reach people throughout the entire country. That's the kind of thing we're really interested in investing in — companies that can make a huge difference.

**Any particular Stanford professors that you found to be particularly influential as you advanced through your career?** I just had lunch with one of them in the Bay Area a couple weeks ago. John Glynn, the CEO of Glynn Capital, was one of the first-generation VCs in Silicon Valley, and he taught an entrepreneurship and venture capital class for many years at Stanford GSB. He shared with us the history of venture capital and talked about how he evaluated different companies and what he considers important. What he said was so helpful and gave us a basis for thinking. I am very appreciative of his teaching and continue to practice what he taught us. ∆

**Nisa Leung earned her MBA from Stanford GSB in 2001.**

**PERSUASION**

# The Power of Speaking the Truth

## In Panama, a new study finds that kids are more likely to drink healthier beverages if you speak honestly — and subtly.

BY LOUISE LEE

What's the best way to persuade children to drink water instead of unhealthy, sugar-laced beverages? Do you:

A. Tell them it will make them more popular.
B. Tell them it will make them healthier.
C. Tell them it will make them smarter.
D. Just tell them to do it without explaining why.

The correct answer: B.

Turns out honesty is the most persuasive tactic, even for kids, while exaggerated claims and ungrounded mandates can potentially have a negative effect, according to new research by Szu-chi Huang, an associate professor of marketing at Stanford GSB. The field study, performed in collaboration with UNICEF, was designed to determine the most effective way to steer schoolchildren in Panama away from unhealthy sodas and other sweetened drinks toward drinking water instead.

**Szu-chi Huang is an associate professor of marketing and the Business School Trust Faculty Scholar for 2018-19 at Stanford GSB.**

*Illustration by Matt Chase*


COOL
JUICE
BRAIN
POTION
JUST A
HEALTHY
BEVERAGE

Cowritten with Daniella Kupor of Boston University, Michal Maimaran of Northwestern University, and Andrea Weihrauch of the University of Amsterdam, the paper will be published in the *Journal of the Association for Consumer Research* in 2019. The research is the first to examine the effects of associating actions with goals in a real-world environment, in this case four elementary schools, where children encounter countless messages daily, Huang notes. Additionally, unlike previous research that has centered on adults, Huang's study is the first to test the effectiveness of such associations on kids.

> **"People don't want to follow an order without any reason. This rule applies to children as well."**

## TARGETING PRE-EXISTING ASSOCIATIONS

The researchers put up posters in four elementary schools located within 10 miles of each other and of similar size and socioeconomic status. Each school had a kiosk selling bottled water. In a preliminary questionnaire, the researchers found that children strongly associated water consumption with health but saw only a moderate association between water and intelligence. The children held an even weaker association between water consumption and the ability to make friends.

In the main study, each school put up posters with a message unique to its campus. At one school, the posters implored students to drink water and "be healthy." At another, the signs said that water would help them "learn faster." At a third school, they declared that consuming water would help students "make friends," and at a fourth school the signs simply told them to "drink water," without further explanation. The posters remained on display for a month.

The researchers found that children at the school where posters declared that drinking water leads to good health increased their water consumption by 31%, suggesting that targeting the students' pre-existing association (that water is healthy) led them to the desired outcome, says Huang.

At the school with posters associating water with learning faster, consumption didn't change from the pre-study level.

And at the school highlighting the questionable association between water and making friends, consumption marginally decreased. That decline may have occurred because the posters linking water to making friends "may have seemed dishonest or confusing," causing children to shun the advice to drink more water, Huang says.

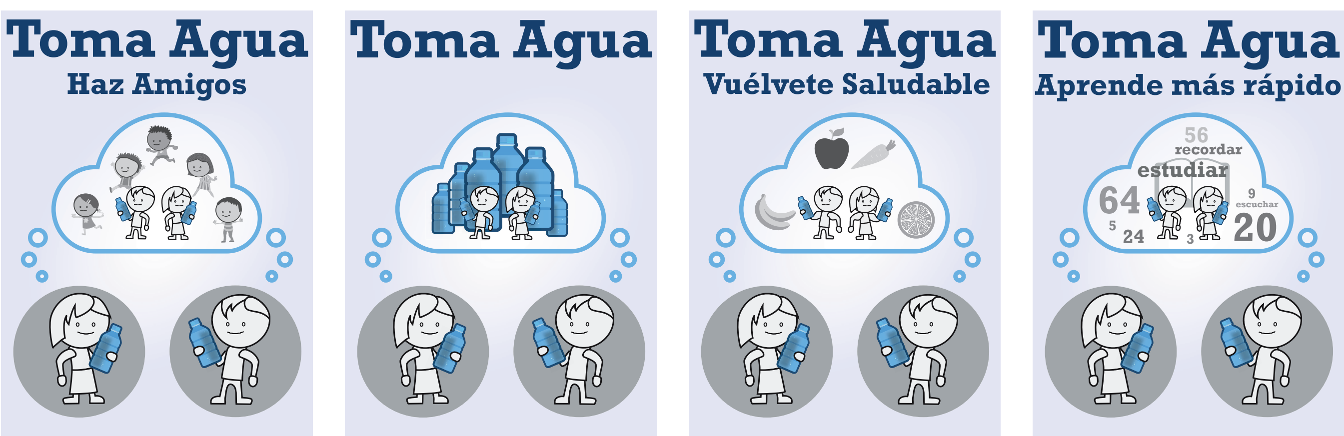
## AVOID BLUNT DIRECTIVES

At the school where posters simply advised the students to drink more water, without stating why, water consumption declined significantly, by 48%. Like the children who were turned off by the attempt to associate drinking water with being popular, these students also may have regarded the blunt directive to drink water as manipulative.

"People don't want to follow an order without any reason," says Huang. "This rule applies to children as well."

In the weeks after the posters were removed, water consumption generally reverted to the pre-study level.

These results suggest that children may need continuous reminders, whether in the form of posters or some other messaging, over time to alter their behavior. Regardless, Huang says, these most recent findings shed light on what kind of messaging and what mode of communication may work to encourage children to modify their habits and help them live healthier lives. ∆




Researchers tested the efficacy of four posters urging children to "Drink Water." Three included additional claims: "Make Friends," "Be Healthy," and "Learn Faster."

James Steinberg

# Learning By Doing, While Doing Good

## With the Stanford GSB Impact Fund, students take the lead.

**James Kim**, MBA/MA Education '18, nervously dialed the number, unsure how to begin the conversation. He waxed general. "So," he began, "tell me about your product."

It was winter quarter of 2016–17 and Kim had called Brendan Finch, founder of an edtech startup called RocketLit. "I kind of floundered," Kim recalls. "These calls can be pretty nerve wracking."

Kim was a first-year MBA student participating in the Stanford GSB Impact Fund, a program that teaches MBA and MSx students how to invest in socially or environmentally focused for-profit ventures. The screening call with Finch was to gauge whether RocketLit's mission aligned with Kim's team's definition of impact and whether the company could be a candidate for funding.

The Impact Fund kicks off in the fall, when participants split into teams and begin researching companies. Kim, a former high school math teacher pursuing a joint degree at the Graduate School of Education, thought technology could play a larger role in classrooms. He and his team were drawn to RockLit's learning platform, which rewrites science and history texts to match students' comprehension levels.

"The company recognized a pain point for teachers who have students at different reading levels, and that covers just about every teacher I know," Kim says.

Impact investing, the practice of making positive change alongside actual market returns, is one of the trendiest practices in "doing well by doing good." A report from the Global Impact Investing Network estimated that nearly $26 billion has been put into mission-driven companies this year, up 20% from 2017. For many investors, it's a forward-thinking approach to traditional philanthropy. And for budding venture capitalists, it's an increasingly coveted career path: A study by BlackRock found that 67% of millennials seek investments that reflect their social values.

Three years ago, five MBA students were the catalysts for Stanford GSB staff and faculty to start the Impact Fund. They, along with many of their peers, wanted hands-on experience, not just a class project using "Monopoly money."

"Students take it much more seriously because it's actual investing," says Paul Pfleiderer, the C.O.G. Miller Distinguished Professor of Finance at Stanford GSB. "They're front and center, probing financials, researching competitors, and evaluating impact. In a traditional classroom setting, they'd be taking a backseat." Pfleiderer, along with Kenneth Singleton, the Adams Distinguished Professor of Management, began advising the program three years ago. Since its inception, the fund (which comes from private donors, including members of the Stanford GSB Advisory Council) has grown from deploying $50,000 per year to deploying $150,000.

Ventures are chosen by the Impact Fund's investment committee, which is made up of two faculty members, three impact investors, and the students in the program. In the 2016–17 school year the committee voted to support RocketLit and another edtech company called Upswing. The startups won out over other ventures in areas of urban development, energy/environment, food/agriculture, and health care/wellness. Both RocketLit and Upswing received $25,000.

"It's a drop in the bucket compared with Silicon Valley investments, but for an early-stage company the amount can be the bridge that gets it to the next round of fundraising," Kim says.

Another key component of the Stanford GSB Impact Fund is leadership. Students are challenged to lead teams and motivate their teammates, who all have competing priorities. They work on specific development goals they set for themselves in other courses. In the fall quarter of 2017-18, Kim and his team began screening CEOs over the phone. This time Kim wasn't nervous. After the previous year's experience with Finch and RocketLit, plus a summer internship at Owl Ventures where he'd made more than 40 of these calls, Kim and other students had refined the script:

*What was your journey to entrepreneurship? Tell me about your product and business model. Describe your team and your traction so far.*

By the spring, the education team narrowed it down to two startups and began analyzing each. The next step for each team was to draft investment memos — detailed 10- to 15-page documents proving why this company, why this model, why now.

"We basically had two weeks to get from nothing on paper to two full-fledged memos," Kim says. He estimates that he and his teammates spent anywhere from five to 15 hours each week on the Impact Fund, on top of normal coursework. They often worked on the fly. He and his team, for instance, had to write the investment memos the week of spring break. With the deadline looming, Kim was in Japan, awaiting his U.S.-bound plane after a trek with classmates. He worked from the Tokyo airport, adding comments to the groups' shared Google doc. Other classmates signed on to edit from Kenya and Rwanda, where they'd been traveling on a Global Study Trip examining global value chains.

"We had a stellar team and all pushed to get this through," Kim says. "There were many late nights hammering it out so we would end up with a polished product."

Unlike a summer internship, the Impact Fund gives students experience in each stage of the process, from cold calling entrepreneurs to managing portfolio companies. By the spring of 2018, Kim had been through the cycle nearly twice. Only presentations to the investment committee and final votes remained.

But, as with any investment firm, getting the committee on board isn't easy. Teams often arrive at what feels like the finish line, only to be sent back to the start. Last year's food and agriculture team made the case for the committee to invest in a venture that created grazing software to help cattle farmers. The startup seemed like a great fit: potential for growth, lasting impact, innovation in the industry. But the committee disagreed, insisting anyone would have difficulty proving the company makes significant environmental impact, because, after all, it was still beef production. The committee advised the food and agriculture team to look into companies in the alternative protein space.

Kim and his team also met challenges when they argued the case for PenPal Schools, an online learning platform that connects students across the globe. Committee member Heidi Krauel Patel, a partner at Rethink Impact and lecturer in management at Stanford GSB, challenged the team's projections of a 12%–13% return. Other committee members questioned the platform's capacity to create real change if it was based predominantly in affluent schools around Silicon Valley.

"How do you measure impact? That's a billion-dollar question," says Loretta Gallegos, associate director of the Center for Social Innovation at Stanford GSB. "It's a real-time issue the industry is wrestling with right now and a question students must discuss at length." Gallegos works with each team throughout the year and helped create the program.

Kim and the education team countered the committee's questions. The projections were their own conservative estimates, Kim says. They also pointed out that impoverished students in African and Latin American countries waited in line for hours to use their school's computer and write their pen pals in Palo Alto.

The committee ultimately voted to support PenPal Schools. The venture received $75,000. It was the third edtech company to receive money since Stanford GSB Impact Fund's inception in 2015.

After graduating in 2018, Kim accepted an offer at Reach Capital. He says the transition to a firm that invests in education technology has been smooth. "It's rare for a junior team member to have experience leading an investment, from sourcing right down to cutting the check," he says. "Being able to go through the process not once, but twice, has really set me up for success in my current role." — JENNY LUNA

**"It's rare for a junior team member to have experience leading an investment, from sourcing right down to cutting the check."**

# EXCHANGE

## SOME FINAL THOUGHTS ON VALUE

EDITED BY STEVE HAWK

"As I have found working in teams with people very different than myself,

**magical**

things can happen with diversity."
— **Kirsten N.J. Byron**, MS '18, "Creating Space for Inclusion," on Stanford GSB YouTube
*https://stanford.io/Byron*

"When I was little, I used to think that if I could just get more straight A's or more awards, she would want to be

**my mom**

again. I didn't understand how my mom could want a drug more than she wanted me."
— **Tadia James**, MBA '19, "Forgiving Addiction," on Stanford GSB YouTube
*https://stanford.io/Tadia*

"Today's locomotives are tremendous machines. We can move one ton of freight over 500 miles on a gallon of diesel fuel. They're like

**rolling data centers."**

— **Carl Ice**, CEO of BNSF, in an interview for the *Systems Leadership* course
*https://stanford.io/IceBNSF*

"I'm not saying we never develop

**wetlands.**

I'm saying that when we need to make this difficult decision, we consider the true value that all wetlands provide us."
— **Samanthe Tiver Belanger**, MBA/MS '18, "The Power of a Salt Marsh," on Stanford GSB YouTube
*https://stanford.io/Belanger*

"If you get up in the morning and your sole intent is to make

**money**

for your shareholders, you'll miss some really great opportunities to do a lot of good for a lot of people."
— **Kenneth Frazier**, CEO of Merck & Co., from the View From the Top speaker series
*https://stanford.io/Frazier*

"If you're Jewish or black, your parents understand. When

**you're gay,**

your parents are often attacking you. It got me to the point where I don't care if you like me."
— **Kara Swisher**, cofounder and executive editor of Recode, speaking at a "Women in Management" banquet
*https://stanford.io/Swisher*

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# INDEX

## NAMES AND ORGANIZATIONS

# The Takeaway

**THE ESSENTIALS**

**FIVE LESSONS FROM OUR STORIES ON VALUE**
**EDITED BY JENNY LUNA**

## More Than Money

The developing world's small businesses need marketing, not just finance, to grow.
**— Stephen J. Anderson**

## Strength in Numbers?

When the outcry against online racism or sexism goes viral, it can create sympathy for the original offender.
**— Benoît Monin**

## The Liability Debate

Banks are better off when managers are held liable for bad investments. Is it time to resurface these policies?
**— Peter A.E. Koudijs**

## Self-Centered CEOs Are Costly

Narcissistic bosses create more legal bills for their companies.
**— Charles A. O'Reilly III**

## Working Around Chiefs

Villages do better when younger, educated technocrats are given a chance to manage.
**— Katherine Casey**

Share these ideas on Twitter @StanfordGSB

*Illustration by Anje Jager*

## THE RECOMMENDED LIST

## MORE IDEAS ON VALUE AND RELATED TOPICS

EDITED BY JENNY LUNA

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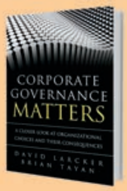


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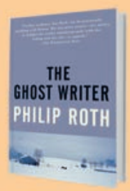


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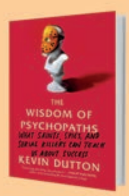


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