VANDERBILT BUSINESS

OWEN GRADUATE SCHOOL OF MANAGEMENT
Summer 2006

Listen Up

Business Ethics are More Important than Ever

Alice Peterson, '81

WANTED: OLDER WORKERS

Seasoned Workers Hold Key to Business Success

EXECUTIVE COMPENSATION

What Will it Take to Rein in Out-of-Control Pay?

eSKYE'S THE LIMIT

How One Alum Beat the Tech Bust

SPECIAL SECTION

All the Buzz: Advice and Insight from Successful Marketers

Summer 2006

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Court-Side Analyst

Barry Booker's on-air commentary goes beyond the stats.

Barry Booker, '97, is a numbers man. An econ undergraduate major at Vanderbilt, he was a stand-out in basketball, with honors including most outstanding student-athlete and academic All-SEC for teams that reached back-to-back NCAA Tournaments. He scored 1,310 points for the Commodores, and still holds the VU and SEC record for career three-point field goal percentage-46 percent.

After earning his bachelor's degree, Booker held various positions in the business world, but always knew he would go to business school. Armed with a full Owen scholarship, and a fledgling broadcast career with Jefferson Pilot Sports and Fox Sports Net, he entered Owen in fall of '95. The former Vanderbilt and current Battle Ground Academy trustee has continued this sideline and opines during SEC basketball games on such topics as offensive and defensive efficiency, basketball IQ, and why players and coaches are doing what they are doing. The job is harder than it looks, Booker says, with each game requiring about eight hours prep time, so he can adequately explain the "why" behind the action on the court.

That VU and Owen hold a special place for him is obvious from the fact that his wedding reception was held at Owen, also becoming his class's unofficial one-year reunion. "Owen helped me develop my analytic ability," he explains, which has held him in good stead not only in the gym but in post MBA jobs at FISI-Madison Financial, Bank of America, and now Wells Fargo, where he is a VP and relationship manager focusing on middle market banking. "Being on TV doesn't hurt either," he laughs. "Being in people's living room on Saturdays helps open doors on Mondays. It is a great marketing tool for Wells Fargo." VB

NEIL BRAKE

Booker explains the *why* behind the *what* on the court.

Owen at Large

The World Opens Up Over a Cup of Coffee

By BETH MATTER

SUMMER 2006
Volume 25, Issue 2

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Vanderbilt Business Magazine is published twice a year by the Owen Graduate School of Management at Vanderbilt University, 401 21st Avenue South, Nashville, TN 37203-9932, in cooperation with the Vanderbilt Office of Advancement Communications.

AFTER INCLUDING AN ARTICLE IN THE LAST ISSUE about Owen Voices (the school's program pairing native and non-native speakers for practicing English), I decided to participate myself. My language partner is Feng-chun (Jennifer) Fang, a rising second-year marketing student from Taiwan. We meet every week for coffee or lunch and have a lot of fun. I proofread her resume, and she showed me her photos from Prague, which got me excited about a trip I was taking there. She has been telling me about Taiwanese customs, and I help her with American slang and point out television shows that can help her learn American culture.


DANIEL DUBOIS

Jennifer and Beth

While her command of English is very good, I sometimes find myself stuck trying to explain something. Like how do you really describe the uniqueness of Texas to someone from another country? I found that almost impossible to do, even though if I were talking to another American, they would understand what I was saying. It is situations like this that underscore the communications gap between cultures.

A big test came when I was trying to help her solve a problem between the local cable company and her bank. I warned her that these situations frustrate even native speakers, and the whole thing could go down a black hole. I made several calls to the cable company, each time getting a different answer. She then went to her bank about the situation, and they immediately took care of the problem. I think she is learning to navigate the system just fine.

I think you will enjoy this issue of the magazine. The articles represent a wide range of Owen experiences. How many of you love the Olympics? I love them so much I tried to volunteer for Athens 2004, either in the press center or for swimming, diving, or sailing. Unfortunately, these are some of the more popular venues, so the only offer I got was to drive people back and forth to the airport. Having been to Athens before and aware of the traffic, I thought it best to turn that down. So like many others, I watched the Games on television. We have Michael Kiakidis '90, to thank for helping to make them a success. He was an executive of the Non-Competition Venue Operations Department for those games and has written an entertaining article about how the Olympics is in effect the world's largest corporation.

Usually the Student Experience article is written by an Owen student, but this time

Continued on next page

Inbox

Yunus' dream is the "total eradication of poverty from the world." It seems he is well on his way to realizing that dream.

YUNUS A MIRACLE WORKER

I enjoyed the article in "Inside Owen" about speaker Muhammad Yunus, (PhD, GS '71). Even more, I enjoyed attending the speech he gave earlier last year. After returning to Bangladesh with a Ph.D. from Vanderbilt, Yunus took a position teaching economics at Chittagong University. Seeing abject poverty everywhere he looked, he wanted to help. He started by loaning a few dozen villagers less than some of us spend at Starbucks a week. The concept of microlending was born.

I have heard about and been inspired by him for about 10 years. I saw him profiled on television and heard him interviewed on NPR. In 1996, he was given the inaugural Vanderbilt Distinguished Alumnus Award. I was very excited and thought him the perfect choice. Later I read his fascinating story in the book, *Banker to the Poor*. He was also featured in the December 26, 2005, issue of *Business Week*.

Yunus' "small" idea has grown into the enormous—and enormously successful—Grameen Bank, which is credited with helping millions of people help themselves out of poverty. The idea of microlending has spread to countries around the world, including the United States. Yunus' dream is "the total eradication of poverty from the world." It seems that he is well on his way to realizing that dream.


DAVID STEINLICHT, KRT

This very humble man had an idea that has improved the lives of millions and will continue to do so long into the future. Vanderbilt can be very proud to count him among its own.

Deborah Corbin
Vanderbilt Development and Alumni Relations

WHEN GOOD PEOPLE ACT

Ebenezer Aryee's "Thoughts of a U.N. Peacekeeper" was both powerful and compelling. It reminds us that even in the direst of circumstances much can be accomplished when good people act to help others.

Eben's presence at Owen also sheds light on the fact that quite amazing people with incredible experiences share our lives here. If we take the time to meet and listen to one another we may be surprised and blessed by the lessons thatmay be shared. Eben has this year been on leave with the U.N., first in Sierra Leone and now in the Sudan. Let us all wish him the very best.

Fred Talbott
Clinical Professor of Communications

*The editor welcomes letters and comments from readers of **Vanderbilt Business**. Send to Beth Matter, editor, Office of Advancement Communications, VU Station B 357703, 2301 Vanderbilt Place, Nashville, TN 37235-7703, or by email, beth.matter@vanderbilt.edu. Letters may be edited to suit space requirements.*

OWEN AT LARGE

continued from previous page

it was penned by Vadim Balashov, a Tulane Ph.D. student from Russia, who describes his harrowing experiences during Katrina. After managing to get out of New Orleans, he found his way to Owen where he finished out the Fall semester, and has now resumed his studies at Tulane.

Our feature articles cover three hot topics—the aging workforce, ethics, and executive compensation, which can also be considered an ethical problem. I am happy to note that we were able to interview such notables as William Chandler, chancellor of the Delaware Court of Chancery, and William Donaldson, former chair of the SEC, on their thoughts about executive compensation.

One of the first alums I met when I became editor in 1998 was Smoke Wallin, '93, who served on the alumni board at that time. I remember when he started his company eSkye during the boom days of e-commerce. His article not only captures those exciting early days but describes how he rode the wave through the bust and landed on the shore with a new and better business model.

And as always, the most important news is about YOU, so please send in a class note or a letter to the editor. VB

INSIDE OWEN

CONFERENCE

Bock: Building a Nanotech Company

WHEN LARRY BOCK AND HIS TEAM CAME UP with their idea for the highly successful Nanosys Inc., they decided against building a nanotech company focused on a single application, and instead followed the lead of the biotechnology industry and developed a powerful platform technology, took a portfolio approach to mitigate risk, and leveraged corporate partners to access financial resources and complementary technology.

The strategy worked: Nanosys today has more than 475 patent and patent applications for products based on inorganic nanostructures for use in the energy, defense, electronics, computing, and life science industries. Current partners include Intel, In-Q-Tel, SAIC, and Sharp Corporation, and applications range from high performance flexible electronics, lightweight and conformal solar cells, high density non volatile memory, and novel nanostructured surface coatings for medical devices.

"With plastics or polymer technology, you could for the first time build something from the bottom up and control its physical properties. This had literally a trillion dollar impact on the economy, revolutionized virtually every industry, and created major new industrial giants. We think nanotechnology will have a far greater impact because it allows you to not only control structures' physical properties from the bottom up, but more importantly its electronic, optical, magnetic, and other properties," said Larry Bock, during the second annual Tennessee Valley Conference on The Science and Business of Nanotechnology held this past year.

Nanotech Equipment

GETTY IMAGES

A key difference in Nanosys' case is that they are trying to affect different industries all based on one common technology—nanostructures with integrated functionality and flexible assembly organized into high value nano modules. "Unlike carbon nanotubes, you can control inorganic nanostructures with atomic precision," he said. "As a consequence, we can fine tune the electronic, optical, magnetic, and other properties exactly the way we want."

No one really knows what the killer "app" of nanotechnology is yet, so they have built a portfolio of short, medium, and long-term products enabling them to bring their technology to market and address higher and higher total aggregate available markets, he continued. "We do not license our technology to our partners but provide them with a module containing the nanotechnology. Our partners don't have to be experts in nanotechnology in order to use it."

Nanotechnology is not inexpensive, so it is not likely to spring up in a garage, he added. But he did compare it to the chemical industry, saying that nanotechnology "does look a lot more like the chemical industry than the semi-conductor industry, so it is a low-cost manufacturing environment."

He encouraged audience members to also consider building a platform technology in nanotechnology.

CLASSROOM

Headfirst into Health Care

STUDENTS IN OWEN'S HEALTH CARE MBA program waste no time in getting a taste of their chosen field. During the fall of their first year, students take the experiential immersion course, putting them smack in the middle of the emergency room and other departments at Vanderbilt University Hospital.

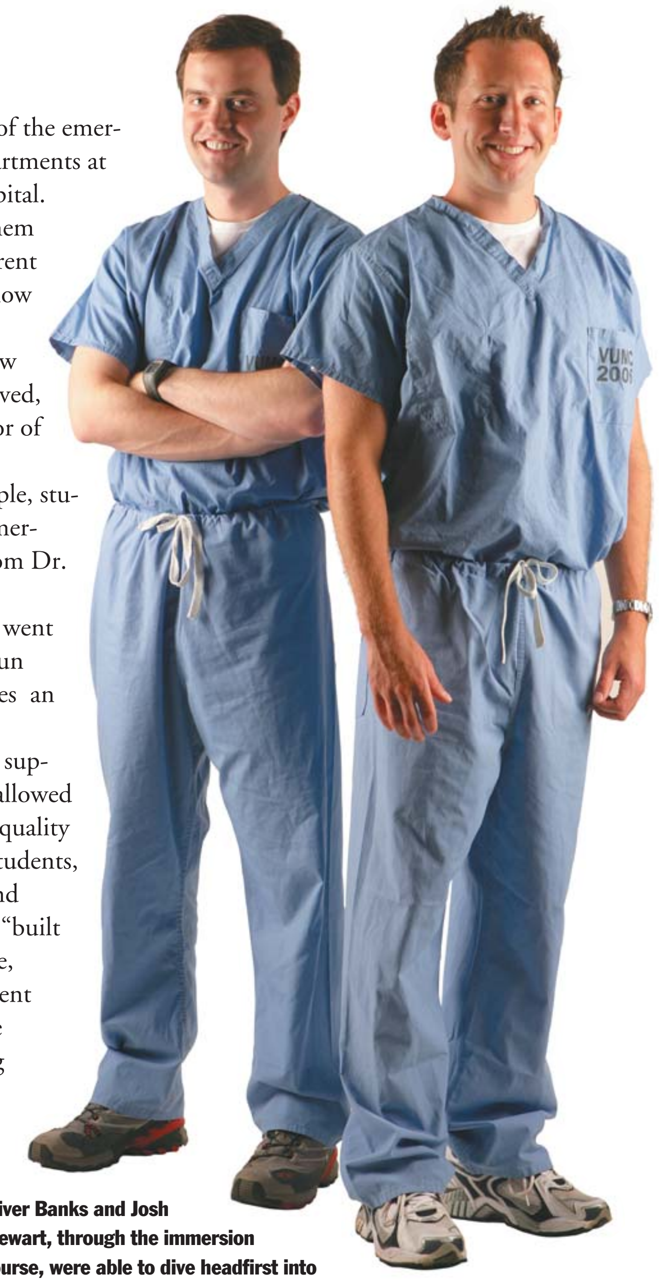
The idea is to provide them with direct exposure to current health care practices and allow them a chance to develop insights and ideas about how health care might be improved, says David Owens, professor of the course.

This past year, for example, students spent a shift in the emergency room and learned from Dr. Ian Jones how Vanderbilt's department three years ago went from a completely "paper run department" to one that uses an ED information system.

"The EDIS is a decision support system that has really allowed the department to practice quality medicine," Jones told the students, demonstrating the board and explaining that the system, "built on evidence-based medicine, makes sure we give the patient the right antibiotic and one that is cost effective, among other controls."

During the course, students also engage in disease study—exploring a particular disease—its elements, business challenges, and business opportunities. Cardiovascular disease was the topic this year, and students learned about heart structure, disease, diagnostic procedures, and transplant issues from Dr. Thomas DiSalvo, medical director of the Vanderbilt Page Heart Institute, and director of the Heart Failure/Transplant Program.

DANIEL DUBOIS



Oliver Banks and Josh Stewart, through the immersion course, were able to dive headfirst into Owen's new Health Care MBA program.

The high point of the immersion experience is when students do a participant-observation of a "night shift" in the pediatric ICU at Vanderbilt Children's Hospital, an experience facilitated by Dr. Venkat Shankar, E'05, a collaborator in the class. "The students go in at 7 p.m. in their scrubs as pairs of "MBAs" and come out at 7 a.m. in the morning, invariably as changed people," Owens says. "They come to realize not only the complexity of the work in medical, technical, and business terms, but also the critical importance of what goes on in a hospital and the need to balance business prescriptions with humanist values. There is nothing like spending the night with suffering children to give one a perspective and a renewed sense of mission."

Back in the classroom, students reflect on their immersion experiences. Owens' goal is that the students understand the challenges of working across the two cultural-value systems (business and medicine). His job as teacher, he says, is to force them to grapple with this challenge and develop a grounded and honest personal perspective about what they think of as "good" and then to get them excited about figuring how to do that kind of "good" by working on the business side of health care.

The experience helps frame other courses in the program, such as Health Care Law and Regulation, Health Care Ethics, and Health Care Accounting and Financial Management. Students in the program also take MBA core courses and choose a concentration such as finance, general management, operations, or strategy. Through internships, students also have other opportunities for health care immersion experiences.

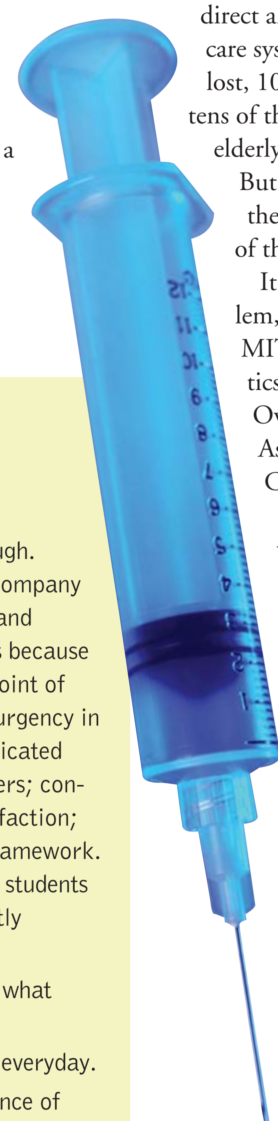
The importance of the Health Care MBA is that the graduates will be able to understand health care from the inside out and serve as leaders in hospitals, labs, pharmacies, and biotech and device companies at a time when it is crucial to have leaders in health care, says Jon Lehman, associate dean of Health Care.

CONFERENCE

Spreading the Flu Vaccine

NOTHING POINTS OUT THE IMPORTANCE OF supply chain operations more than a tragedy or pending epidemic. How do you quickly re-route supplies to people in an emergency?

Case in point: Recently there has been a lot of press about the shortage of flu vaccine at the beginning of each flu season. The flu can have dire consequences with billions of dollars of direct and indirect costs to the health care system, 40 million school days lost, 100 million works days lost, and tens of thousands of deaths, mainly the elderly, so there is reason for worry.



But then later in the season comes the news that there was a surplus of the vaccine after all. What gives?

It is a classic supply chain problem, said Prashant Yadav, with MIT-Zaragoza International Logistics Program and a presenter at Owen's symposium on Business Aspects of Closed Loop Supply Chains held last fall.

Part of the problem lies with the fact that the flu vaccine supply chain has diminished, with only two manufacturers left because it is not a profitable industry; and also because there is a long lead time and uncertain yield because of the chicken/egg production vaccine process. (Newer production processes have substantially improved this yield, Yadav pointed out.)

The government estimates demand, and manufacturers decide how much to produce. Health care providers, knowing there may be a shortage and a later allocation, do a bit of gaming by purchasing vaccine from different wholesalers. The end result is that some providers run out of vaccine, while others have surplus, but there is no effective way of redistributing it. And the surplus is wasted.

Yadav's recommendations for solving the problem included creating a flu vaccine "e-hub," encouraging health care providers to pre-book vaccine, and creating a redistribution mechanism to facilitate in-season regional imbalances in demand and supply. The Centers for Disease Control in fact did include a redistribution system in its 2005-06 guidelines, he told participants, shifting demand to providers in close proximity with vaccine supplies instead of product movement.

MICHAEL CAPELLAS' LEADERSHIP LESSONS

MCI IS ONE OF THE GREAT STORIES ABOUT what people can do when you motivate them, Mike Capellas told students last year, when he appeared at Owen as a Distinguished Speaker.

"The company had a history of innovation—it was part of the foundation that created a competitive environment for the telephone business, and it helped grow, we believe, the explosion of the Internet. But it also experienced the largest accounting fraud ever recorded, and shortly thereafter experienced one of the largest bankruptcies. At that point, I arrived on the scene. What was I thinking?" he said with a laugh.

Michael Capellas, president and CEO of MCI, and parent of a Vanderbilt graduate

He was able to turn the company around through innovation and leadership. He claims it was because he wasn't afraid to have a point of view; he created a sense of urgency in the company; over-communicated with employees and customers; concentrated on customer satisfaction; and developed a strategic framework.

Capellas also shared with students the list of traits he consistently observes in leaders:

- They are passionate about what they do.
- They learn something new everyday.
- Leaders know the importance of building personal relationships.
- They dare to be different.
- Leaders do the right thing because it is the right thing to do.
- They have fun along the way. "Singing karaoke at the top of your lungs at the back of an airplane is OK," he quipped.

SPEAKERS

HCA: Crisis Management During Katrina

WHILE EVERYONE WATCHED THE KATRINA disaster unfold on television, few knew of the quiet success story taking place at HCA's Tulane Hospital.

HCA does disaster planning, both at the local hospital and regional level, and as usual had been on alert for Katrina. "After the hurricane passed through on Monday, like everyone else, we congratulated ourselves that we dodged a bullet in New Orleans," said Jack Bovender, HCA chairman and CEO, an Owen Distinguished speaker last year.

But Tuesday, when the levees broke and the first floor of the hospital started flooding, they realized the danger and wasted no time in taking action.

"The hospital was isolated—there was no way to get in or out," Bovender said. The team quickly turned the top floor of the parking garage into a landing pad. A ham radio group from Tallahassee flew their equipment to the site, which was turned into a makeshift air traffic control center, with five or six helicopters hovering at a time to rescue people.

Their mission was to rescue 200 of their own patients, plus others from Charity Hospital across the street, and special needs patients being transported from the Superdome. "On top of that, we had 1,500 staff members on hand, plus their family members who had come to the hospital to wait out the storm. And about 70 pets. It was an absolute pending disaster," he said.

In the end, all were transported to safety. This success came down to two basic decisions, he said. "One was that while we hoped the federal, state, and city governments would help evacuate the hospital, we decided not to count on that— we would take care of our own. The second was that we wouldn't talk about what this was going to cost—that it was better to have too many resources rather than too few."

Bovender listed some of the supplies needed to carry out the operation:

- 95,000 pounds of ice
- 40,320 meals ready to eat
- 5 truckloads of food
- 1 truckload of scrubs
- 7 truckloads of miscellaneous supplies
- 1 truckload of mattresses for shelters
- 2,500 gallons of gasoline for vehicles and generators
- 24 privately contracted helicopters, including two Blackhawks and one Russian MIA helicopter
- 1 fixed wing plane for delivery of supplies
- 2 privately contracted Boeing 727s for evacuee transport to Houston and Atlanta (after bringing people to Lafayette, Louisiana, decontaminating them, feeding and clothing them, they flew them to Houston and Atlanta and issued 200 airline tickets to wherever they wanted to go, Charity employees included)
- 50 buses for evacuation
- 1 refrigerator truck
- 17,360 doses of pharmaceuticals.

"At the end of the day, this operation cost HCA 4-5 cents earning per share, which was well worth it, because as they say in the Marine Corps, 'no man was left behind.' This is definitely one of the defining moments in the history of HCA," he added with pride.

DANIEL DUBOIS

Jack Bovender, HCA chairman and CEO, met with students following his talk at Owen.

CLASSROOM

Live Case Study: Mavens and Moguls

MANY BUSINESS STUDENTS STUDY HARVARD'S business cases on Paige Arnof-Fenn's Mavens and Moguls, a strategic marketing consulting firm made up of former chief marketing officers and seasoned marketing professionals, but few have the pleasure of having her in the classroom to take the discussion to the next level.

Bruce Lynskey, clinical professor, invited her to sit unannounced in the back of his Management Consulting class. The students, as expected, critiqued her and her company, commenting on among other things that she doesn't seem to be able to hold a job, her employees come and go, and that her stated aspiration to be named *Time's* Person of the Year, was, uh, a little odd.

Arnof-Fenn, who was taking copious notes on the discussion, was met with nervous laughter from the students when introduced by Lynskey halfway through the session. "This was hilarious," she told the classroom, "it is like going to your own funeral and hearing what people really think."

She ran through the list of comments, giving feedback. "You sound like my mother," she told one student, "who also didn't think I could hold down a job. But the truth is—I am unemployable and think I was meant to work for myself. At my earlier jobs, I was always the one trying to bend, break, or change the rules. When I graduated 15 years ago, 'entrepreneur' was not a big word. I just thought I was a pain in the ass."

Arnof-Fenn has held prestigious positions with Coca-Cola and Procter and Gamble, and created three start-ups—one was sold to Yahoo!, another to Bertlesman, and a third was bought out.

After the third sale, her "retirement" lasted a full six hours. "I went and had a massage and my hair and nails done, and by the time I had gotten off the table, I had the idea for Mavens and Moguls. I knew people, and I knew projects, and I just started putting them together."

The company is an on-call marketing team that gets business through word-of-mouth. "We are the marketing company that does no marketing," she quipped. Generally, they are hired to do one of three things: an initial engagement, public relations, or market research. There are currently 45 mavens and moguls (the best people I have come across in my career, she said) who work out of their homes, and bill hours ranging from six figures a year to only a couple thousand dollars a month. "I don't pay them a salary—they only get paid when their skills are needed. None of them are doing this work to pay the mortgage or make a buck—so the projects have to be ones they are genuinely psyched about."

Mavens and Moguls takes jobs all over the world, and last year had teams working with such companies as Merrill Lynch, Delta Airlines, Sprint, Colgate, and the *New York Times*. Sometimes companies hire the team as full-time employees, who at some point might find their way back to Mavens and Moguls. "The average tenure for a chief marketing officer is 22 months at a big corporation, so sometimes they want to come back, which is cool," she said. "Jobs come and go, but Mavens and Moguls is here to stay."

Things are good with the company and her life, she concluded. "This company has been a great platform for me personally, so the update is I no longer want to be Person of the Year," she laughed.

THE NEED TO ADAPT

"You're in a unique position to bring a new kind of balance to the world of work. But the paradox is that to bring that new balance, you've got to un-balance the world. Whack it in the head. Knock it in a new direction, which is what the work of adaptation does….

As a generation, you're the first to grow up with computers, the Internet, and the "We" of gaming; the first to grow up expecting your mother and sisters to have careers; the first to grow up in blended and racially mixed families; the first to mix constantly and fluidly with people of other backgrounds and cultures; the first not to believe in the possibility of career employment with one organization; and the first—in America at least—to come of age in an age of terror….

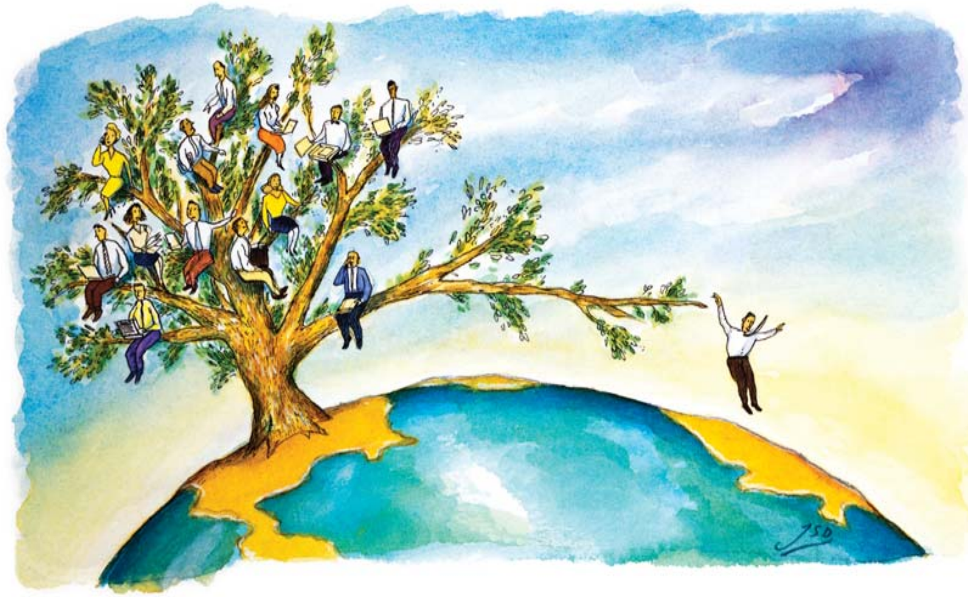
You have to change the way you do business and think about business. Yesterday it was all about business and almost nothing else. Today, it's so much more. It's about business AND politics, business AND the environment; business AND global social responsibility, business AND diversity, and business AND inclusion. It's plural. And it's infinitely more complex. It's a multi-tasker's dream. It's a task for which your impatient, multitasking generation is uniquely suited—conditioned in ways that before now, few fully appreciated, especially folks of my generation….

The truth is that generations adapt successfully only when they adapt together. It's a process that only works with honesty and with tensions, like the cables and spans that hold up a great bridge….In this sense, every new generation corrects and complements the one that preceded it, if only to give it a good shove in a new direction…."

Excerpts from 2006 Commencement Speech by Barry Salzburg, managing partner, Deloitte & Touche USA

DANIEL DUBOIS

Barry Salzburg, Commencement speaker



GETTY IMAGES

CONFERENCE

Volcker: Oil for Food Program Damaged by Ethical Lapses

DURING HIS TALK AT VANDERBILT DIRECTORS College last fall, Paul Volcker, former chairman of the Federal Reserve, compared the challenges of corporate governance presented by the endemic fraud at Enron and WorldCom to the corruption he uncovered in the United Nation's Iraqi Oil for Food program during an investigation he led in 2004.

"The U.N's Oil for Food program was brought down by ethical lapses or corrupt influences and rather gravely damaged the credibility of the U.N. as a whole," he said. "But the critical point goes straight to ethics and leadership. High ethical standards need to permeate the U.N. from the bottom to the top."

Volcker said that the Sarbanes-Oxley legislation, which established more stringent standards for corporate governance and reporting, was "necessary and healthy." But he added that over-regulation might stifle innovation.

"You really need incentives in business that emphasize the importance of setting ethical standards high," Volcker said. "Enron and WorldCom were all symptoms of something more insidious. Where were the lawyers, the directors, the investment bankers? Things were out of balance. The agenda for boards today is very different than four or five years ago, when we were exploring the glories of financial planning. Now, we're focusing on ethics and compliance."

During the Directors College, other notables including Chancellor William Chandler of the Delaware Court of the Chancery, and former SEC chairman, William Donaldson, spoke on related topics. (See related article on executive compensation on p. 58)

DANIEL DUBOIS

Paul Volcker: High ethical standards need to permeate the U.N. from bottom to top.

Why We Love HR

Because Human Resources Professionals with MBA Degrees Bring Strategy and Leadership to the Table.

FAST COMPANY MAGAZINE LAST AUGUST PUBLISHED an article titled “Why We Hate HR” that caused a stir in the business world. In the article, author Keith Hammonds said that finding, nurturing, and developing talent should be one of the most important tasks in a corporation, and asked the question, “So why does human resources do such a bad job—and how can we fix it?”

Neta Moye, assistant professor of management in Organization Studies and Human Resources Management, brought together a panel of alumni to discuss the issue, “Is HR Really Crucial?” during the school’s Human Organization and Performance Association Day. Participating were Carolyn Schneider, E’02, senior VP/HR at Attentus Healthcare; Bruce Lynskey, ’85, clinical professor of management; John Owens, ’04, director, J.H. McCann & Company, Inc. in New York City; and Brian Griffin, Human Resources Manager for Ford Motor Company. Students and faculty members in the audience also asked questions.

During the first part of the roundtable, Schneider and Lynskey did not represent their own views of HR but offered opinions that many executives hold. They expressed their own viewpoints at the end of the session.

Carolyn Schneider knows firsthand how HR can be part of the business team.

Moye: What we want to talk about today is a controversial article from *Fast Company*, which every HR person I know has read. *Fast Company* is getting a lot of press off this. I have sent it to five or six VPs myself. The article takes a controversial position on HR and the value of HR.

Let me start it off by reading one of my favorite quotes from the article: “So HR people are for most practical purposes, neither strategic nor leaders. At best, a necessary evil and at worst, a dark bureaucratic force that blindly enforces nonsensical rules, resists creativity, and impedes constructive change.

Schneider: A lot of executives I know feel that way. They say every time they go to HR, everything is lost in a black hole, and they don’t see how that is strategic.

Lynskey: Many execs think HR just doesn’t attract leaders.

Owens: It is the most central part of a firm. Others may come up with strategy, but who implements it?

Griffin: HR is the same as any other discipline—there are both effective and ineffective people in the profession.

Schneider: That is true, but they say every time they go to HR, it takes three weeks to hire someone, and they can’t wait three weeks. They can’t get sales, for example, if they don’t have the people.

Lynskey: I have heard people complain that HR folks have no concept of the business, how business is run, what it means to be successful. They are out of sync with the organization.

Moye: Do you believe that could be true?

Griffin: I could hire someone today, but you may not be happy with the results. It might take a few days to get the right person for your position. I don’t have them lined up in the closet.

Schneider: But why not? If you were truly strategic, you would. You would be able to anticipate the needs of the company because you would know the business.

Griffin: The labor market just does not work that way.

Owens: If they needed to hire someone, why didn’t they think this through three weeks ago?

Moye: John is saying that even though HR people attempt to be strategic, it is often the execs who drop the ball.

Griffin: Maybe some companies are not hiring the right people for HR.

Schneider: That is a possibility. Some have brought in HR people, and all they want to be is a shoulder for people to cry on. That is not OK.

Moye: How did those people get in the firm? Who brought them in, and how does their behavior persist?

Lynskey: Many execs’ expectations of HR are low.

Griffin: They don’t give them a chance to earn their trust and the chance to be strategic.

Schneider: Some execs say they just need someone to manage the paperwork, to do all the administrative stuff. They don’t need HR to be strategic—they will do the strategy themselves.

Griffin: Then they have no idea how complex some issues are. They can’t fathom everything that comes and goes. You are talking about the ultimate variable: people. Rarely is the operating person going to trip up on operating issues. The finance person is usually going to be able to handle the finance piece. But it is the people piece that trips them up. That is where companies get in trouble. You need good HR people and their filter to help you. They are there to help set direction.

Schneider: Some feel that it is nice to have someone to pick up the pieces, but they don’t see how HR has anything to contribute in terms of strategy.

Lynskey: It is thought that more and more HR will be outsourced.

Owens: The way they see HR and the way it should be run is very different. I talked with a woman at a bank the other day, and she was able to walk up to the head of the firm and say that she needed $1 million for an initiative. He said fine, “where do I sign?” There are not many people who can do that. She can do that because she has credibility, but also because the firm is willing to believe in the HR function and sees a strategic component in it. I don’t think firms in the past have done that.

Schneider: Even the skeptics think recruiting is a great function because they have such a turn. But they don’t see the value in the other side of HR. They just see it as “process in, process out.” Execs also tend to think that no one goes to business school to be in HR. They don’t need a business person to do HR.

Moye: What value does HR really have? Those executives you are talking about clearly don’t see it. Make the argument that HR is really important. Can you prove it?

Owens: Yes—you can clearly outline its true benefit. It comes down to the numbers. HR people can talk about a great leadership plan and how they are going to roll it out, but what employers really want to see is what economic impact it is going to have on the business.

Schneider: I have heard executives complain that every time they ask HR to show them the correlation between a training program and productivity, they can’t do it—they don’t know the numbers.

BUSINESS ROUNDTABLE

The ultimate **VARIABLE** *is people. That is where companies get in* **TROUBLE**. *You need good HR people and their filter to help set* **DIRECTION**.

Owens: Again, they are hiring the wrong person then.

Lynskey: Another complaint is that HR's default mode is to move toward uniformity. They want to pay everyone the same amount.

Schneider: Execs would like HR to show them the correlations between training programs and productivity—why people leave their company, for example—and to put in programs that affect the bottom line and top line, and to show them that they understand what the business is, and who the customers are.

Moye: So these executives realize there might be a role for HR strategists.

Owens: People can sit around and talk about this, but it is the same as sitting around and talking about anything else. If you don't get behind it, you don't impact change. If you want to have a good CFO, for instance, you have to hire a good CFO.

Schneider: An exec puts in a plan to grow a business, but HR might nix it. Execs get tired of hearing that they can't put some special incentives in place to help grow the business. Why can't they? They own the business.

Griffin: HR does have rules. If you have a 10-person enterprise, you might be able to fly by the seat of your pants. But if you are running an enterprise of 100,000, it helps to have general principles around which you govern from a people standpoint.

Lynskey: Companies can also feel that HR is an obstruction to getting the best people into the firm. They just want the best qualified person, no matter who they are or where they are from, and HR prevents that from happening.

Owens: HR is just the enforcer. They are told by the CEO they have to meet certain metrics, and they are told by the chief legal officer that they have to achieve diversity. They are not actually the ones making the choices.

Moye: This is interesting—maybe it's not all HR's fault?

Molly Munch (student): Someone mentioned that execs ask why get someone with an MBA to do HR? Because, when you get someone with an MBA, you are getting an MBA first, then an HR professional. We take the same classes and do well in management and finance, just like the other students. I can do a weighted average cost of capital for you. I can do a good job as an HR professional, because I have these other skills and can see the connection between what operations needs to be efficient and then give them the best people for that. If you understand what you are looking for in your HR people, you can find them. But only if you want your HR group to be strategic.

Griffin: Like most things, there is work involved. Too many operating people want HR to go away, and they need to realize it is just like any other managerial discipline—you have to devote time to it.

Moye: What is the valued-added that you bring?

Griffin: The value added is that an HR professional with an MBA degree is a business person first, and they bring their understanding of employment law and organization culture and use their filter just like the finance, marketing, or operating person does to help make decisions. You can't make HR a dumping ground—you have to bring in people that you trust for the position.

Owens: At one company, the head of recruiting was an investment banker, and she probably saved the firm $8 million last year.

Moye: So what is the right thing to do with HR?

Owens: We need to be hiring smart people.

Schneider: Many execs feel that they don't need that function in their company.

Owens: So are they going to do everything on their own?

Munch: On one hand, these execs are saying they want HR to be strategic, but they are also saying they don't want HR's input on who they hire. Isn't it strategic to do something that isn't an immediate priority but might prevent a lawsuit, or lets the internal company reflect the external market, for instance? Isn't it strategic when HR tries to hire with a greater interest in mind?

Schneider: That would be seen as value-added if it were structured properly. But again, executives don't want anyone to push back on their managers and tell them they can't fire someone, either.

Moye: Would it hurt to completely outsource HR?

Griffin: The analogy I use is that HR is the oil in the engine. We help keep the company running and help achieve operating efficiency. Eventually without it, the engine is going to seize up. I think you sub-optimize it if you outsource it. A number of things can be handled through outsourcing, but there is benefit to having a business professional, a strategic-oriented person, at the company.

Lynskey: A company may start with one employee, and as it grows, HR is often outsourced. But when it gets up past 100 employees, the discussion usually comes around to, is it time to start internal HR? Then there are the comments from employees: "We are doing so well right now, why do we want something like that?"

Moye: Who raises the question to begin with?

Lynskey: The officers.

Moye: What are they looking for when they say maybe it is time to bring in an HR person?

Lynskey: They are looking to cut costs—it is more efficient to have someone in-house.

Tim Vogus (assistant professor): I want to go back to a comment made earlier, which is that HR is okay if we can correlate specific training programs to productivity. I would argue that most activities occurring in business organizations have at best a tenuous link to overall productivity. There is a danger for HR in pursuing these kinds of metrics and linking everything to firm performance—implying that this is the only indicator of value to the organization.

The analogy of oil is a good one—HR is the social lubricant of the organization, and of the relationships people are building as a result of training. You talk about vision and what you want to do as an organization. How do you turn that into action and reality? You can use tools like training to reinforce that. That may not have an easy correlation to overall personal productivity, but it still has value.

Schneider: That is what people say the problem is with HR—it is all squishy.

Neema Mehta (student): It becomes squishy because a lot of the strategic things we do, you don't see. We know your business and do things to help you avoid being sued, for example. Our job isn't to get all of the attention or shine. Our job is to protect you.

Justin Miller (student): I have a question for John: Convince me there is meat behind your rhetoric that you can actually have a business partner relationship strategy invested in a CEO.

Owens: Again, I go back to the numbers. You have to show that you understand what you are talking about. I don't believe in doing a program just to do a program. A leadership program is great, but show me the numbers of why it makes sense.

DANIEL DUBOIS

Bruce Lynskey is a strong advocate for HR. A former business person, he says, "The HR folks we hired were some of the best people I have met in any business function."

Human Resources is the OIL *in the engine. They help keep the* COMPANY *running and help to* ACHIEVE *operating efficiency. Eventually without it, the engine would seize up.*

There has to be more reason to do one than it creates a good environment. There has to be some kind of measurement tying it back to what we are doing—trying to increase shareholder value.

Moye: Now for the wrap-up. There are a lot of people who espouse the views that Bruce and Carolyn have been voicing. We are not going to pretend that every firm is dying for a strategic HR person—that is not true.

The challenge in our profession is to prove the value—that there is a reason for doing programs. The reason is not the metrics—the metrics might be the proof that you are right, but the reason is a business reason. Showing how a program is going to contribute to the execution of a key tactic, for example. Through reasoning you can prove to a CEO that you understand the business, and then use logic to show how you apply a practice to their key tactics. If you can put numbers on top of that, even better.

Now I am going to give Carolyn and Bruce a chance to give their own views of HR.

Schneider: At my company, I am absolutely a business partner with my health care team. We have considerable say in the organization. The metric part of HR is important, but to be strategic, you have to back up and point out what is keeping your business up and running. If you understand that, chances are you will be able to form your HR strategy and have it aligned with business. Make sure you are on task, because you can get caught up in tactical stuff and be headed down the wrong road, not benefiting the business.

Lynskey: My true experience with HR is that back when I was in business, we started a company in a room not much bigger than this one. When I left the company six years later, we had 7,500 employees. The HR folks we hired were some of the best people I have met in any business function. Every year we hired more people than were employed at the company, and the HR folks were able to decide for themselves what their role was. That is part of the fun of being in a new organization—you are not agents of change, but agents of invention. They also decided who their customers were within the company, and that is where they put their offices. They understood the business as well as anyone in the company, and they knew who was needed where at what time.

Owens: Right after graduation, I was put in charge of recruiting for investment banking at a firm. It was a tactical role, but every time I tried to be strategic and think outside the box, everyone pushed back. So I decided to align myself with business people rather than HR people, and quickly gained credibility.

My advice—align yourself with business, truly understand what the business needs are, what the problems are, and what your competitors are doing. Take it upon yourself to do these things. This adds value. And be an independent thinker.

Those in school now will be going into the field at a time you will be able to help redefine it. There may be some better opportunities at smaller companies that are willing to spend money and are looking for change. Change is harder at big firms.

Griffin: At Ford, my partners are the CFO and the 30+ senior finance people around the world. In my view, doing HR really well is difficult. It is easy to sit back and collect a paycheck and go home. Too many people fall into that trap. It is harder to get out there and engage people, and the better you do that, the more business you will have and the more issues you will get into, and that is more difficult.

Moye: Students in Owen's Human and Organizational Performance program are going to be that kind of HR person—those who look at business problems through the lens of HR. That is the skill set we hope to give you. You are not just going to get functional HR skills, but also the strategic elements—change management, leadership, negotiation, etc. We purposely differentiate ourselves from other programs that teach you how to be great functional technicians. You will play a very different role. What do you need to get out of your classes? Everything. You are going to be a business person first. This profession is hard but also very rewarding. **VB**

Shelter After the Storm

Following Katrina, Tulane Student Finds Open Arms at Owen

By VADIM BALASHOV

MY NAME IS VADIM BALASHOV. Born and raised in Moscow, Russia, I received a degree in engineering business from Bauman Moscow State Technical University, and for three years served as head of the physics section in an evening high school. In 2003, I won the President of the Russian Federation (V.V. Putin) Scholarship and decided to shore up my knowledge of managerial disciplines and pursue an MBA degree at Southeast Missouri State University. With my engineering background, knowledge of business disciplines, and love of scientific research and teaching, I then decided getting a Ph.D. degree made sense. When my family and I traveled down to New Orleans, I was astonished by the spirit and the beauty of the city. I applied to Tulane University and was accepted for the class starting in August 2005.

I had barely begun my studies when my wife and I first heard about Katrina, a category five hurricane coming directly at New Orleans. Like many international students, we didn't have a car or TV, and only a limited Internet connection. There was no alarm or siren, so by the time we found out about Katrina it was already too late to leave. We stayed in our three-story apartment building with three other international students. Our apartment was on the ground floor, but a friend gave us a key to his second-floor apartment so we could watch his TV and follow the storm. Weather reports promised a 50-foot tide of water and winds up to 175 miles per hour.

We never experienced hurricanes in Moscow so didn't know what to worry about. We cautiously moved most of our belongings to the second floor, put tape on the windows, and broke through the door to the attic. There was a window in the attic, so if the water got that high, we could still get out. We unraveled a rug and tied the threads together for an escape tool in case we needed it. After that, we just sat and waited for Katrina.

The electricity went off in our building at 7 a.m. on Monday, August 29, and Katrina's eye came an hour later. The wind was so strong that roofs and air con-

VADIM BALASHOV has returned to Tulane University. He is one of approximately 100 students from Gulf Coast colleges and universities who registered for classes at Vanderbilt last fall.

SMILEY POOL, KRT

Floodwaters fill the streets of New Orleans, August 30, following Hurricane Katrina.

The electricity went off, and the **WIND** *was so strong that roofs were* **TEARING** *off, windows were* **BREAKING**, *and the whole building was* **CRACKLING**. *Those were the scariest moments of our lives, and we were even preparing to die.*

DANIEL DUBOIS

Vadim Balashov in Nashville

ditioning units were tearing off, windows were breaking, and our whole building was crackling. We knew to stay in a doorway on the first floor far from windows as long as possible. Those were the scariest moments in our lives—we were even preparing to die. The only connection to the outside world was a little radio and a working phone line. From the radio, we heard news from different areas of New Orleans about wind damage, water damage, and desperate people.

Several hours later, the eye had passed and everything seemed okay: The wind had died down, and the water was receding. We decided to get some rest. The peace was short-lived: A couple of hours later, one of the international students woke us up saying the water was coming. There had been no official report, but the radio indicated a breach in the levee system. Again, we didn't know what to expect but wanted out of the city. The water was not too high yet, but everything was made worse by the fact there was no air-conditioning, and it was a sticky 110 degrees F.

The next morning everything was a river. I decided to go—or more precisely swim—out to find out what was going on. Many were in the same situation, and I realized the city was cut off from the world and there was no way out without help. Before long, there were looters on the streets, and by Tuesday almost every store had been robbed. We had enough food and water in our building but were afraid looters might start rushing into houses and fighting for food.

Our friends tried to call 911 for us, but of course that was impossible to do. We were able to contact the Russian council in Texas. The Ministry of Emergency Situations, analogous to FEMA, was ready to send military jets to the U.S. to aid in rescuing people. By that time, however, New Orleans had declared Marshall Law and didn't let anyone into the city. That day we climbed to the attic and put a big white blanket on the roof. Helicopters were passing by at low altitudes but none landed.

The radio was still giving disconnected pieces of information. All we knew was that Metairie, a nearby city, was relatively safe and dry. We decided to find a way there. On a map, we saw that I-10 was not far from our apartment, and if there was any help, it should be there we thought. At least we would try to get there and get a ride.

On Thursday, another international student and I went out toward the interstate. The water was deep by then—up to the doorknobs on front doors. The water was also very dirty, with a mixture of oil, garbage, sewage, and debris. And there were bodies too. Sometimes it got so deep we had to swim.

We finally got to the highway and found others waiting for help. The word was that rescue boats and buses would arrive shortly, but we saw none and decided to walk farther in search of help. After a couple of hours, we came to an area where the road was submerged. No buses or cars can cross now, I thought—only boats can help. We were in the middle of a cemetery but as luck had it there was an abandoned boat 200 feet away. On my way to get it, I noticed broken wires in the water, but fortunately they were not live and I was able to get the boat. We used a stick to steer and later found a paddle. We even found a big airbed so then had enough transportation for all five of us.

On the way home, we noticed a huge helicopter landing on the roof of a school near our street. We learned the helicopter was rescuing people from this centralized location, and anyone in the area should come here. We hurried back to our apartment building and told everyone else. We put only the most necessary personal items in the boat and got back to the school. The wait lasted more than an hour, but we were happy to get into the helicopter and feel safe. The helicopter brought us to New Orleans airport.

At the airport, there were a lot of military, medical, and other personnel, and the whole situation seemed dramatic. Patients from different hospitals were lying around and crying in pain. There was a lack of medical equipment, drugs, and ice. But the worst part was not knowing what was going to happen next. No one from outside the city was allowed into the airport, so even if people had friends waiting for them, they could not get in touch. Our friends in Baton Rouge were ready to come to New Orleans but were not allowed to do so. There was no official logistical information, but eventually the word spread that the next morning there would be planes taking us either to San Antonio or to Houston. Again, we just had to wait. It was a good time to get some rest, and official personnel were providing free snacks and drinks.

KHAMPHA BOUAPHANH, KRT

U.S. Marshals conducted a search on Tulane Avenue in New Orleans, Louisiana, on Sunday, Sept. 11.

By Friday morning, the airport was overcrowded and everyone was anxious to get on a plane. Anytime there was a gate number announcement, the whole crowd rushed there, fighting to be first. This went on for the next 10 hours. Elderly people were fainting, children were crying, and men were shouting. Finally, military personnel started boarding us on a plane to San Antonio.

In San Antonio, we had to stand in another big line to get into a shelter. By then though we felt safe and out of the "disaster" area. The shelter was a haven compared to what we had experienced recently. We were given new clothes, beds, blankets and pillows, and any personal items we needed. Officials provided food and medical assistance. We were happy to find out that so many organizations donated items. Believe me, people really needed that help.

The next morning our friends from Baton Rouge found my wife and me in the shelter, and the four of us went back to Baton Rouge. We were there a couple of days when we found out that Vanderbilt University offered Tulane students the opportunity to continue our studies. That's how I ended up being at Vanderbilt and Owen and enjoying the atmosphere here.

My wife and I want to thank everyone who helped us in those days, including: Yana Kuzmina, Yves Damoiseau, Alexey Baranchikov, Janice L. Hughes, Rob Hansen, Ron Masulis, Daron Giles, Caroline Breyley, Barb Ostrenga, Peter Gordon, Ken Heischmidt and everyone from Southeast Missouri State University, Louise Whitaker, Brian Whisnant, Kate Reid, Pamela Schneller, Kelly Christie, our parents, and all the people who worried about us. **VB**

INSIDE BUSINESS

INTERNSHIPS

Helping GE Go Green

BY JEFF GOWDY, '06

I STRAIGHTENED MY TIE. Righted my eyeglasses. Tugged on my cuffs and cleared my throat. I opened the door.

"Jeff, good to meet you, I'm Steve."

"Nice to meet you," I reply.

He smiles and looks up. "So are you wearing your hemp suit today?" And flashes me a smile.

I smile, caught off guard, and respond, "No, I dropped it off at the cleaners yesterday. Will organic cotton do?"

And so began my interview with a well known global consulting firm.

I guess I shouldn't be caught off guard because my resume, once laden with action verbs and financial success metrics from a variety of IT systems implementations, now is half-dedicated to entries such as: Summer 2005, Summer Associate for a boutique consulting firm that specializes in assisting companies make environmental sustainability initiatives profitable.

His next question was, "So what is environmental sustainability?" The best way for me to answer was to provide examples of what I worked on over the summer.

The greatest amount of my time during my summer internship was spent assisting with GE's launch of ecomagination. Our first task was to evaluate all of GE's products (from airplane engines to household appliances to wind turbines...) to determine which products could be

MICHELLE KUMATA, KRT

promoted as environmental leaders in their respective industries. The most common metric used to determine this leadership was in greenhouse gas (GHG) emissions. This analysis found that 17 of GE's current products could be promoted as environmental leaders. These 17 products then were massively advertised in print, on television, and on GE's Website (ge.ecomagination.com) under the marketing banner: ecomagination.

The launch garnered a large response. Others in the eco/green/environmental world of business in NYC were interested in discussing the launch at conferences, meetings, and happy hours. Newspaper and magazine articles noted, quoted, and even led with the story. In early August, *Forbes* dedicated their cover to a smiling mug of GE CEO Jeff Immelt with the tagline "GE Goes Green."

Has GE gone green?

ecomagination is in essence a marketing campaign right now. But it is also a longer term, multi-billion dollar growth strategy for GE to improve many of their products' environmental attributes in order to provide cleaner, more fuel efficient products and technologies to their customers. Why would GE do this? With tighter global environmental regulations, rising energy costs, greenhouse gas limits, and increased consumer education and demand for cleaner products, there is a growing market for products that provide cost savings through environmental improvements.

Profitable solutions with a focus on environmental improvements—that's what I call a good step towards environmental sustainability.

JEFF GOWDY *graduated in May and is working on social and environmental sustainability projects in the Southeast.*

EXECUTIVE

Owen Offers Foundation for Health Care Careers

BY PAUL FRANKENBERG, E'03

MANY SIGNS POINT TO CAREER OPPORTUNITIES in health care: advances in medical science and technology, technology applications and electronic health

DANIEL DUBOIS

Professor Larry LeBlanc can show you how to be a power user in Excel.

TOOLBOX

The Need to Excel

A WORD TO THE WISE BUSINESS STUDENT: *Spreadsheets.* Many companies require applicants to be highly proficient in Excel. In some cases they even require applicants to pass an Excel proficiency test. The result has been Owen students scrambling to get into Professor Larry LeBlanc's Management Science in Spreadsheets course. This popular elective attracts around 120 of every 200 students enrolled each year. LeBlanc also teaches Advanced Spreadsheets for IT Applications (VBA macros). A lot of people use Excel, but LeBlanc shows you how to be a "power user" and turn it into a real management tool. He jokes that management science has become popularized — spreadsheets do for management science what Walt Disney did for rodents. "If you ask people how good they are at Excel, they all say 'very good,' and they are not lying," LeBlanc says. "They simply don't realize how many features there are in Excel." Example financial applications include portfolio optimization, short-term cash flow planning, and capital budgeting. Operations applications include aggregate production planning, supply chain optimization, and facility location. Advanced features of Excel, including pivot tables, data tables, form controls, filters, charts, text worksheet functions, subtotals, and efficient downloading of data from the Internet, are also covered.

records, evidence-based medicine, consumer-driven health care, and the aging population. The leadership role Owen is assuming through its Health Care MBA is supported by both industry leaders and industry trends and statistics. Graduates of this program will enter an industry where they will immediately learn and provide value to the system. This article is aimed at those both beginning a career in health care and those further developing a career or moving towards the executive rank.

Foundation for a Career in Health Care

Dean Jim Bradford, Jon Lehman, associate dean for Health Care, and his team, the Owen faculty, the Health Care advisory board, Vanderbilt's Law and Medical Schools, and alumni have come together to develop and properly launch a world-class program. Owen students are looking at the industry broadly with opportunities to dive deep into their functional interest(s). The student immersion is being well received as a differentiator to the four other nationally recognized programs: Duke, Northwestern, Wharton, and Emory.

During a recent lunch conversation with Manny Villafana, (founder of five public companies: CABG Medical, ATS Medical, Inc., GV Medical, Inc., St. Jude Medical, Inc., and Cardiac Pacemakers, Inc., now a division of Guidant Corporation), he shared the information that entrepreneurs and up-and-coming executives must also be well-versed across multiple functional areas. An individual can lead with depth in one area— legal, finance, or marketing, for instance—but must be conversant and knowledgeable across the entire functional spectrum to have career success and be chosen a leader of a health care organization.

Building a Career in Health Care

The Nashville Healthcare Council recently reported that "By 2012, one in every seven new jobs in the nation will be in health care." Labor statistics and forecasts estimate that between 2002 and 2012 there will be an increase of 22 million jobs, approximately 21 million of which will be service-oriented versus goods-producing. A total of 18.4 percent of the country's GDP is projected to be health care expenditures in 2013, up from 15.7 percent in 2005.

The growing percentage of health care expenditures to GDP, in addition to the advancements mentioned above are resulting in fast-moving opportunities for individuals interested in a health care career.

MICHAEL HOGUE, KRT

There are countless books on career advice, leadership, how to make more money, and find the career that best suits you. Success in the health care industry requires focus and concerted effort, just as in other industries. I believe three points are applicable to your career progression.

1) Understand that business is global. While this is obvious to someone who works for GE or another international organization, how does this apply to the small business owner/employee or consultant who does not work outside of the USA? Recognize that many of your clients' customers, vendors, and competitors work and think on a global basis, so you need to think of their business in the proper context. McDonald's spent billions of dollars researching how to infuse French fries with vitamins and minerals and even an AIDS vaccine to vaccinate children in Africa. We do not think of McD's as a global biotech company; however, they obviously see how their business can cross boundaries. If you currently work for an international company, seriously consider a global assignment. At least put yourself in a role where you are exposed to international aspects of your business. You will gain real, hands-on knowledge of your business, cultures, competitors, and vendors, etc.

2) Possess high integrity and be on the front end of compliance. Sarbanes-Oxley is here to stay, and business leaders understand the regulations, importance, and consequences of making poor decisions. Taking five dollars out of the petty cash fund, and overstating your sales numbers are considered violations. Speaking as an executive recruiter, I can tell you that background checks increasingly are more extensive and exhaustive. References no longer consist of two to three names you give a recruiter or employer. Those are clearly biased. Boards and senior management want to know that we have spoken with your previous supervisors, peers, subordinates, industry trade association heads/ employees, and sometimes customers. One red flag around integrity/ compliance can have a career limiting consequence.

3) Get past the rhetoric around leadership so that you truly understand and act like a leader. The bottom line is that a leader is someone people will follow. When we consider candidates, we define leadership in a few different ways:

Career path—have you been put in roles with increasing levels of responsibility and exposure to senior management?

Working with others—have you developed people around you, so that when you are promoted or leave, there are one or two people groomed to take on your role? Additionally, what do your subordinates and others in your organization think or know about you?

Visibility—are you known by senior management and/or the board of directors? Figure out who is driving business revenues and expenses and make sure you have some exposure at the top. The more you are known outside your functional area, the more your work and results will percolate upstream to senior management or the board.

Owen Alums Positioned as Leaders

With the school as the foundation, and individuals focusing on what it will take for them to succeed, Owen will inevitably see large numbers of alumni leading health care organizations.

PAUL FRANKENBERG, E'03, *is president and cofounder of Kraft Search Associates, LLC, a retained executive search firm focused in the health care and financial services industries.*

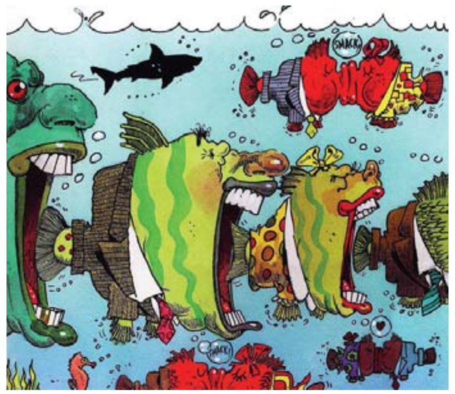
ANTITRUST

If Merger is the Answer, What is the Question?

Doesn't anyone have any questions for my answers?
—Henry Kissinger at a press conference

BY LUKE FROEB

AFTER WORKING ON HUNDREDS OF MERGER investigations as a government antitrust enforcer, it is clear from reading internal documents that mergers are thought to cure a variety of corporate ailments, including, but not limited to: under-diversification; high taxes; excessive overhead; limited product offerings; under-investment in R&D; and my personal favorite, ruinous competition. All that is missing from most offering memoranda is the disclaimer that the Federal Trade Commission requires on testimonial ads, "results may differ."



KRT

For some mergers, the value created by the merger is obvious and well documented but, for a surprising number, the analysis is nothing more than a litany of excuses copied out of a corporate strategy textbook to justify the merger to the board of directors. If the firm were a fraternity, the junior MBA assigned to write the memo would be a pledge, and the memo would be part of the hazing ritual designed to build what academics like to call "a common sense of identity." The message is that you look for problems only after deciding upon the solution.

This kind of cart-before-the-horse analysis causes several problems, the most immediate being if one of the items on the list is "eliminate a close competitor." Since these documents are all discoverable in a merger investigation, the analysis becomes a smoking gun that obligates the antitrust enforcement agencies to deepen and widen the investigation. This raises the costs of regulatory compliance, in addition to the costs associated with delay, uncertainty, and attrition. If my colleagues who study Organizational Behavior could figure out how to make the bad employees leave, mergers would easily pay for themselves but until that happens, attrition falls on the other side of the ledger.

The merging parties' response to these damaging documents is so common that it has a name, the "brain-damaged, middle-management defense." That it often works is due to the low expectations—formed by decades of reading company documents—government officials have for this kind of analysis. And if the enforcement agencies don't believe the internal analysis, the merging parties will find it difficult to put up an efficiency defense to an otherwise anticompetitive merger.

The other, more terrifying problem caused by this kind of analysis concerns the fiduciary duty of the board of directors. The problem-whose-name-cannot-be-spoken can arise when a merger announcement moves stock price the wrong way, and can be defended only by claiming the decision was made by exercising your business judgment. Even with the deference given to management by the courts, it might be hard to hide behind a memo written by brain-damaged, middle management.

So what should you do when considering a merger?

The obvious answer is to use your business judgment. Solve problems by first figuring out what's wrong, and then choosing the best available solution. For example, if your price is too high because it costs too much to purchase a crucial input, figure out why. If the high price is caused by the "double markup" problem (two independent producers, marking up their products without considering the effect that their prices have on each other's demand), then merger or acquisition can solve the problem by bringing pricing authority under common management. Turn the upstream producer into a cost center, and transfer the product at marginal cost to the downstream division. If merger is too costly, consider a long-term purchasing agreement that specifies a low sale price and shares profit with the upstream producer.

This is not rocket science. There are a host of good reasons to acquire another company, but acquiring a company simply because it is profitable or has a large share is NOT one of them. Profit or share is worth just as much to the target company's shareholders as it is to yours. And unless the acquired firm is worth more to the buyer than it is to the seller, there is no reason to transact. If you have a good reason to buy, identify it and document it—before you buy. Not only will this lead to better decisions, it may help you avoid legal problems.

The movement of assets to higher-valued uses is the wealth-creating engine of capitalism. Our biggest and most valuable assets are corporations. That we cannot document, for many mergers, a good reason for their movement is a stain on our corporate reputation.

This article first appeared in the March 2006 *Mergers and Acquisition Journal*. Reprinted with permission.

Luke Froeb, *the Margaret and William Oehmig Professor of Entrepreneurship and Free Enterprise, served as chief economist of the Federal Trade Commission for two years where he managed more than 100 civil servants dedicated to tearing down barriers to competition (often erected by well-meaning bureaucrats), in addition to enforcing the antitrust and consumer protection laws of the United States. In July 2005, Froeb returned to Owen and teaches in both the MBA and Executive MBA programs.*

LAW AND BUSINESS

Mass Torts: A Question of Settlements

By Richard Nagareda

For the past two decades, the law has struggled with the problem of mass torts. In fact, it is difficult to open a newspaper in recent years without reading about some manifestation of the problem. Mass tort litigation sweeps broadly, involving such products as asbestos, the Vietnam-era defoliant Agent Orange, silicone gel breast implants, and the diet drug combination fen-phen, to name a few examples. Even the government itself has become involved in mass tort litigation as a plaintiff, suing the tobacco industry for the additional costs to public welfare programs arising from smoking-related disease and suing the firearms industry for the costs to public services stemming from gun violence. Concern over mass tort litigation is among the considerations underlying policy debate over the Class Action Fairness Act and proposed asbestos reform legislation.

The important questions about mass torts are not so much questions about litigation but questions about the design and implementation of settlements. The big open question in the law of mass torts today is how to design arrangements to replace litigation over a given product with private compensation systems that pay claims based upon predetermined "grids" that match the claimant's condition with a compensation amount. These arrangements seek to bring "peace" to entire areas of mass tort litigation by putting into place a kind of miniaturized, privatized version of workers' compensation. Yet, the principal designers of these private compensation systems have not been legislatures or courts but, instead, sophisticated private lawyers—entrepreneurial personal injury lawyers and their counterparts, who defend corporate manufacturers. The real story of mass torts today is the story of how these lawyers have come to

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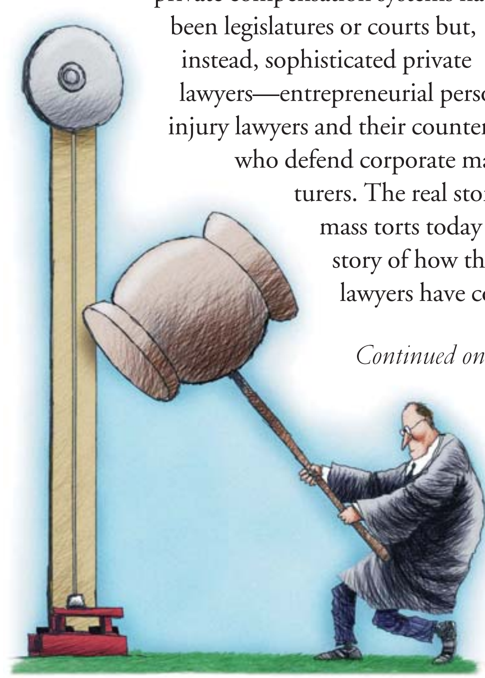

GARY MARKSTEIN, KRT

DANIEL DUBOIS

Tim Vogus' Mindful Organizing Scale helps to enable a safety culture in hospitals.

HEALTH CARE

Safety is No Accident

According to the Institute of Medicine, upwards of 98,000 people die annually from medical error. At Owen, which this year launched its Health Care MBA, Tim Vogus, assistant professor of management in human and organizational performance, turned his attention to the problem. Vogus devised a 9-item measure of behaviors, The Mindful Organizing Scale (MOS), which helps to enable a safety culture in hospitals. Mindful organizing, he says, "entails fostering collective vigilance through ongoing discussion of system vulnerabilities and possible high risk situations before errors occur. Nurse managers can enhance mindful organizing by creating structures sufficiently flexible to respond to a crisis and ensuring that nurses are intimately familiar with the skills and competencies of their colleagues." The MOS fills an important gap in assessing the behavioral underpinnings of a hospital unit's safety culture, he adds, and "the items are 'actionable' in the sense they entail concrete behaviors that can readily be changed by RNs and influenced by nurse managers through how they manage their employees on a daily basis." However, even Vogus acknowledges that achieving a safety culture is only part of the solution to reducing accidents; computerized physician order entry (CPOE) and effective training is also key. Paul Keckley, executive director of Vanderbilt's Center for Evidence-based Medicine, who also teaches in Owen's health care program, points out that more than one-third of hospitals in the U.S., including Vanderbilt University Hospital, have begun using the CPOE systems to reduce medication errors in dosing, timeliness, and drug interactions.

Five Rings of Hell

Despite Many Challenges, "World Inc." Still Produces Mankind's Best Party

By MICHAEL KIAKIDIS, '90

PHOTO COMPOSITE ILLUSTRATION, KRT

WHEN DANTE, AN ADMIRER OF ANCIENT GREEK SPIRIT and philosophy, wrote the *Divine Comedy*, the notion of the modern Olympic Games, revived by romantic scholar Pierre de Coubertin in the 19th century, was in the distant future.

Dante's description of the circles of Hell in Purgatory—the closing volume of his monumental triptych—applies well, however, to the conception, running, preparation, and execution of all modern Olympiads.

For the layperson, the Olympiad represents the romantic notion of fair play, concordance, peaceful competition through sports. *Altius, Fortius, Citius:* Higher, Stronger, Better. Humanity together in peaceful competition.

For stakeholders of the endeavor, it represents a booming multi-billion dollar business.

And for a business person, the question might naturally arise: How are the Olympic Games, in the way they have evolved to their present status, any different from any major, multinational corporation?

I would argue that the modern Olympic Games is a company with a "product" it sells to billions, a brand to promote and protect, and a number of "offices/factories" around the world set up especially for each occasion. It is by far THE biggest and most international corporation, with the strongest brand name on the planet. Recent market research shows that the five circles are one of the top five recognizable symbols internationally.

To gain insight into how the Olympic Games work, one has to better understand who the customers are of this corporation and the dynamics among them.

Sticking with Olympic protocol, we may award medals to involved parties:

• The gold medal definitely goes to the International Olympic Committee (IOC), based in Lausanne, Switzerland. The Immortals (so called because they hold the elected position and benefits for life) are the holders of all Olympic trademarks and therefore regulate the "production" process. The IOC is in effect an "executive board" with all the accompanying procedures and benefits.

• The silver medal goes to the IFs, or International Federations (eg, FIFA, FIBA, FITA, FISA, etc.) and National Olympic Committees (NOC) that regulate all disciplines and group under them country sports federations. Without them there would be no Olympic Games. They approve if, when, who, and how Games will be done.

• The bronze goes to the Athletes. Although the heart of the Games, if the IOC and the IFs/NOCs do not approve them, they do not participate.

Out of medal contention but still major players: the Sponsors. No sponsors, no Games. There are several tiers of sponsors: international, national, local, contributors, etc. Usually, before the Games are granted to a certain country, at least most international sponsors have signed up directly with the IOC.

Then there is the buzz. Olympic Games need to make a LOT of noise—it is a USP of the "product" sold. Games are conceived to be mankind's party, and any party has to come and go with a "bang." We invite therefore our next player: the Media. Written and electronic press have played an increasingly important role in the "success" or "failure" of the Games. Both the IOC and hosting countries indulge journalists in hopes of a "good Game image." For the IOC, that means a "well wrapped" product for billions, with TV rights being the biggest money maker. For the host country, it is a way to promote itself around the globe and to "fire-prevent" in case of organizational failures or major goofs during the Games. If something goes wrong, a good relationship with the media helps tone down problems that arise and helps save face for the country.

Last but not least is the key IOC "customer": the Host City (HC) and the Host City Olympic Games Organizing Committee (HCOGOC). Within the HCOGOC there is permanent staff, seasonal, sub-contractors, and volunteers. Thousands of them.

This medley is the "factory," the ones that come up with an organizational plan to deliver the product to the world. It would be no exaggeration to say that the IOC "sub-contracts" the Games to the HC and the HCOCOC and expects everything to be delivered according to a general blueprint of specifications given by the IOC.

The Playing Field

What is unique from a management point of view is how short lived each HCOGOC is. Unlike a normal start-up, where great effort is made to enter the market slowly and attain a breakeven point, the typical HCOGOC will live for a maximum 4-6 years (including candidacy years), the last two of which it will mushroom from 80-100 employees to 50,000-70,000, including volunteers. The last year is the most productive and important in terms of expenses.

KRT

This philosophy and structure of the HCOGOC poses some problems, notably in the area of employee motivation. Most contracts are fixed and bonuses tied into the initial contract upon "successful" completion of the Games. Average employee age is low (20-28 years) because of the nature of the event, and salaries are higher than market average due to the short employment horizon, offering a strong incentive for prospective employees to jump on the bandwagon, in full awareness of the "expiration date" of this job. But there is no job evaluation at the end of the year, or extra bonuses if the "business" goes well.

The "Olympic investment" of any candidate city is astronomical. If you think the cost of health care is spiraling upwards worldwide, look at the cost of Olympic Games. Athens, which hoped to have "human scale, simple Games" reached nearly a whopping 9 billion EURO (approximately 11 billion US$) and Sydney did not fall under 5 billion US$. This is much more than the GNPs of many developing countries!

However, when we talk about Olympic Games, we leave planet Earth and like astronomers talk about LARGE numbers: tens of thousands of HCOGOC employees, thousands of athletes, hundreds of countries, billions of EURO, million kilos of food consumed at the Olympic Village, hundreds of cars and buses used, hundreds of miles of fences and… dozens of new records.

MICHAEL KIAKIDIS, *'90, was an executive of the Non-Competition Venue Operations Department of the Athens 2004 Olympics Organizing Committee (ATHOC 2004). During his two years with ATHOC 2004, he worked with a number of teams in operational planning of key non-competition venues, including the nine official Olympic Family Hotels (IOC, NOC, IF, Athlete) around Greece. He also worked with VIP and special IOC guest hospitality. During the Games, he was venue manager for two of these hotels in Athens, hosting IOC and NOC members and their equivalent offices/operations in Athens during the 2004 Games.*

The modern **OLYMPIC** *Games is a company with a "product" that it sells to billions, a* **BRAND** *to promote and protect, and a number of "offices/factories" around the* **WORLD** *set up especially for each occasion.*

So why would a Host City go through the extensive IOC approval process in hopes of hearing the IOC President say his famous phrase "the winner for the XXXX Games is YYYY"?

The reason is "Olympic Heritage." Heritage to a city could be new physical infrastructure—stadiums, highways, trains, airports—or intangible assets, such as know-how, logistics, security, large event management, etc., and also tourism. It is widely accepted that the 2002 Games put Sydney on the map as a primary vacation destination. Barcelona benefited tremendously through improvements and beautification. Athens today boasts state-of-the-art highways, trains, bridges, and Europe's most modern airport because of the 2004 Games.

Hurdles to Success

The flip side is the cost and post-Olympic use of these facilities. In theory, according to de Coubertin's founding charter, "any country should be able to host the Games." This is an elusive dream. Residents of Montreal still complain about the huge government loan they paid for 10 years for their Olympics. Under the new IOC directives of cutting down Games' cost and in the spirit of new IOC President J. Rogue's instructions for "leaner Games," Athens kept a good balance but remained in the red like the majority of Olympic cities and had to bite the EUR 9 billion bullet.

Post-Olympic use of venues can be tricky, and the larger the Games, the more difficult this can be for the HC to handle. Most stadiums are too large for everyday local use, and footing the maintenance bill is a challenge.

The tourism benefits a country may accrue can also be hard to determine. It is not the Olympics alone that define a host country's long-term benefit: political stability, investment, previous reputation as a tourist destination, and politics are other contributing factors. As mentioned, Barcelona and Sydney benefited greatly in this regard from the Games. But there have been other cities that either were financially devastated or saw few long-term benefits: Montreal, Moscow, Seoul, etc.

There can also be an uninvited player: terrorism. Terrorism is a limiting factor to the Games' income and will definitely curb a host city's "attractiveness" should a threat, let alone an "incident" occur. Athens had to invest close to EUR 1 billion for security alone. For London and the 2012 Games, terrorism will be an even larger threat.

The other scourge of the modern Olympics is doping: food supplements, steroids, and anabolics—cocktails that either lead to victory or to death, to annihilation or disgrace. It is a rat race between drug makers and drug detectors, and an industry in itself with huge profits and only one victim: fair play. Now even horses participating at the Games are routinely tested for drugs!

The recent effort to "clean" the Games has led to a relationship between the IOC and the Canada-based World Anti-Doping Agency (WADA). WADA claims to have checked one in five athletes at the Athens Games, with a target of one in two for Peking 2008. The Peking OG Organizing Committee is already in negotiation with the IOC as to how these unexpected checks will be made.

Going for the Gold

Despite these issues, the Olympic Games remain a well planned and closely managed business with a unique personality. It IS the original World Inc: All countries participate, the IOC has a "subsidiary" in each NOC, and it sells a product everyone likes. Even better, it is not public, it moves it own capital, and NOBODY can take over. It is extremely high profile, where politics, world business, finance, media, and sports amalgamate in a Lord of the Rings kind of bond.

The biggest challenge the IOC currently faces is the future of the Games itself. Like any product, this one is starting to show age. Efforts for a "brand extension"—the Winter Olympic Games—placed strategically between the Summer Games, has been successful but has reached neither the numbers (athletes and viewers alike) nor the momen-

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KRT

Surviving the Tech Tsunami

An Entrepreneur's Story of Perseverance and Flexibility

By J. SMOKE WALLIN, '93

THIS IS MY TAKE ON THE TSUNAMI called the Internet boom and bust of 2000. Much has been, and more will be, written about this special time in history. As the founder of eSkye.com, I raised over $58 million, hired and fired more than 120 people, including many of my Owen friends, fought the Venture Capitalists and bought them out, and survived to tell the tale today. Here is my version of events and lessons learned so far.

GETTY IMAGES

Calm Waters: A Little Background

I was always interested in technology and thought I would start my own business. In seventh grade, I won second prize in the Manatee County (Florida) science fair for a solar system BASIC program I wrote, running on a Commodore64 (as in 64 kb). When I read *Atlas Shrugged* in eighth grade, my fate was sealed as a devout follower of the John Galt way. I had numerous fits and starts in high school and college in creating little businesses. When in 1988 I joined my future ex father-in-law's Indianapolis liquor distribution company—after a lackluster college career at Cornell University—I figured I had all the basic training I needed (having closed Johnny's and Dunbar's more than my fair share those four years).

I spent most of 15 years helping to build National Wine & Spirits (NWS, www.nwscorp.com). I was active for many years in the industry and was chairman of the Wine & Spirits Wholesalers of America (www.wswa.org) in 2003-2004. At the time I joined, National had revenues of $150 million and was the leader in Indiana. After stints in store merchandising, sales, brand management, and as leader of the team that started a bottled water business (Cameron Springs sold to Nestle in 2000) I attended Vanderbilt. I became de facto CIO of NWS during my last semester. NWS had purchased the smallest liquor distributor in Chicago (at $90 million in sales) in 1991, my first year at Owen, and had recently closed on one of the largest (at $200 million in sales). NWS was having a crisis in managing their information systems staff. I stepped in as the only person who knew anything about technology. I had weekly updates from my direct reports faxed to me at the Owen library, as no one at the company had e-mail at that point, while mine was limited to the VAX system run by Vanderbilt. While I fancied joining Boston Consulting Group out of business school (I was our finalist that year in the interviewing process), the lure of helping to build a large family enterprise at a senior level drew me back.

Fast forward to 1999: After six years of hyperactive growth, NWS had more than $1 billion in annual beverage transactions and operated distribution businesses in four states, as well as all 50 states with our beer marketing company. I was the CFO of the company, and we had just completed a $110 million public bond offering that recapitalized the business.

J. SMOKE WALLIN, '93, the 1998 Owen Distinguished Alumnus, is an 18-year veteran of the wine and spirits industry, and a seven-year veteran of the technology industry. He has served on the boards of two publicly traded companies, and is the founder and chairman of the Wine Industry Technology Symposium (www.wineindustrytechnologysymposium.com). He is the active father of four children, and the oldest of seven siblings, three of whom are Vanderbilt alums. Smoke and Anitra reside in Indianapolis one-half time with the kids and in Sonoma County near his customers the balance. He is an avid snowboarder and former remedial surfer.

Between 1998 and 2000, **MORE** *than $350 million of* **VENTURE FUNDING** *went into Internet* **START-UPS** *in the beverage alcohol industry. Of the many high profile companies started then,* **eSKYE** *is the only one left* **STANDING**.

Leading up to this point, I led the corporate group that created new businesses under the umbrella of our existing distribution business. By 1999, these new business ventures accounted for $550 million of NWS's total volume. Our technology group had created many new applications and was widely viewed as the industry leader in using technology effectively.

When the family chose to hunker down and discontinue the acquisition and growth strategy that we had successfully executed over the past decade, it gave me just the excuse to venture out on my own and start eSkye.com. What follows is a part of my story of the events that occurred during that interesting moment in time, and a brief epilogue.

DANIEL DUBOIS

Smoke Wallin continues to serve on the boards or as an advisor to numerous private start-ups and is chairman of the Foundation for Entrepreneurship and Experiential Learning, which under his leadership grew to more than $10 million last year.

Riding the Wave: Founding and Funding

I founded eSkye with Andrew Lobo '93 and Clay Wallin '97 to bring technology to the wholesale wine and liquor industry and its suppliers and retailers. This is an industry that was created by two Constitutional amendments (1919 and 1933) and over 50 different sets of local laws and regulations. The distributors are, almost without exception, second, third, or fourth generation businesses. All have been very successful financially, and as a result many have had limited need to innovate or leverage technology in their business. With EBITDA margins of 6-9 percent, these are some of the most profitable distribution businesses in the U.S.

eSkye's model was simple. We wanted to create a B2B hub whereby restaurants, bars, and liquor stores could purchase all their liquor supplies from one site. These orders would flow to whichever local distributor had the rights to a given brand in that territory. Thus we were working with, not against, the entrenched interests.

We recruited top talent. Key Owen Alums who joined our start-up efforts included Andrew Lobo '93 (now head of strategy at Sports Authority), Donna Zavada Wilkensen '93 (head of HR at the Indiana Pacers…btw Donna, how was managing Artest?), Eduardo Benzious '00 (Diageo in Brazil), Billy Huger '93 (hedge funds in Atlanta), Curt Castelinet '93 (engineer in Denver), Duane Williams '93 (BCG in San Francisco), and Clay Wallin '96 (VP Sales at eSkye). Other Owen alum investors included Robert White '93 (manager at NWS), John Baker '94 (manager at NWS), Nicholas Whitcombe '92 (investment banker in New York), Frank Hughes '93 (bank president in Chattanooga) and Drew Nygard '93 (consultant). Nashville natives Orrin Ingram and Robert Lipman were, and continue to serve, on our board of directors.

After an initial seed round of key individuals and friends of mine, we set out to raise some real funding in the summer of 1999. Importantly, our view was that this industry took a long time to develop as it is, and that changing it through technology would also take a long time. In October, we closed on $6.5 million of equity for our nascent business. One-third of the round came from liquor distributors, one-third from venture capital including Draper Richards, H&Q (now JP Morgan), Blue Chip, Monarch, and the other one-third from individuals. These were heady times for dot-coms, and B2B was the hottest of all segments, with public offerings for Vertical Net, Purchase Pro, Chemdex, among others skyrocketing. Valuations of even private efforts like WebVan, which raised $1 billion, were out of control.

One of the VCs who invested with us said we should buy a boat so we could entertain recruits we were trying to hire. He was convinced that this was a success factor at one of his fund's holdings. Andrew and I looked at each other in amazement. Never had we heard such silliness coming from the mouths of supposedly serious business people.

We launched our service to retailers and restaurants in Chicago and Michigan in September 1999, just four months after starting the business. By early 2000, it was clear that the effort would take longer and require much more capital than originally anticipated. Plus the markets were looking favorably on B2B at that point, so we decided to raise a much larger round of financing.

The key to any financing is getting a lead. The rest is really easy in filling out a round. But getting that lead can be elusive. At the Chase H&Q conference in Snow Bird, we successfully cornered a potential lead partner at Softbank and gave him our pitch. At the same conference, we cornered a lead partner of CMGI's @Ventures. Both agreed to meet with us later that week, one in Palo Alto, one in Boston. @Ventures was first. They offered us $50 million on the spot for a 25 percent interest in eSkye. The next day, Softbank heard our pitch in Boston. Shortly thereafter, they committed $100 million for 40 percent of eSkye. We agreed to pursue Softbank, as they had the best international network, and given the global nature of the drinks industry, this was attractive to us. They were arguably the most desirable fund in the world to have as a backer of any technology company at this point in time. After due diligence in March, mostly during the NCAA Final Four Indianapolis, at which we entertained our Softbank guests, we were set to close in early April. They told us, "You guys are one of the top 10 companies we have seen," and "We have never had a deal get this far and then not close." After much haggling all around, Softbank agreed to be cut back to only $75 million, and we were able to squeeze in another $25 million from others, including JP Morgan and many individual investors. The behavior of some investors was interesting, as they vied with each other to be included in the deal.

By the end of April, the NASDAQ market crashed. Softbank backed out at the last minute as the market deteriorated. They actually pulled all term sheets of companies that they had not closed on the same day. We were devastated. We had to scramble to find replacement funding. All those frantic funds and investors, who were screaming bloody murder when they were being cut out because of Softbank, were now not returning calls.

We then realized that our opportunity was still there, that we were the best in our space, and that the crash would impact our inferior competitors much more than us. Sure enough, we got right back on track and closed our $48.5 million round within two months. It took all of our team's persuasive powers to convince JP Morgan to step up and lead, given their existing investment and the fact that they wanted a lot more of the deal than Softbank was willing to allow. With only two weeks of cash left in the bank, we closed on the first bit of what would end up being a $48.5 million round for 40 percent of eSkye. This funding would turn out to be the last significant B2B exchange deal done in the world.

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An Entrepreneur's Rules of the Road

Ready. Fire. Aim. Victory belongs to the bold.

1. You must be absolutely committed to your idea/business. No obstacle is insurmountable if you are fully committed. Perseverance will trump almost anything.
2. Success is based on your ability to recruit and maintain the very best talent.
3. Flexibility in how you achieve your goals is critical.
4. Never take yourself too seriously. Business is not war, and there are much more important things in life.
5. Have faith. At the end of the day, no matter how hard you prepare and work, there are many factors outside your control. There is a higher power that will determine the outcome. When things look darkest, count your blessings and have faith.

CORPORATE SPOTLIGHT

Hotwheels!

Revving Up an American Classic for a New Generation of Boys

By BETH MATTER

LOOKING AT THE MATTEL WEB SITE IS like a trip back through childhood. The site features a range of toys for boys and girls of all ages, including the Fisher-Price classics we all played with as toddlers. And of course, there's Hot Wheels. What man of a certain age didn't clip tracks to a doorway and race Hot Wheels down the door as a child?

A quick Internet search reveals how extensive the Hot Wheels culture is—there are hundreds of links to Hot Wheels collectors, message boards dedicated to every aspect of the toy, and even a Hot Wheels Hall of Fame in Los Angeles.

Obviously Hot Wheels is still a big hit among adults. But how is the brand that has been around for 38 years faring with the younger set in this age of video games and the Internet?

"It's definitely a challenge," says Geoff Walker, '94, who has worked at Mattel for 11 years but just recently became vice president of Mattel Wheels, which includes Hot Wheels, Match Box, and Radio Control Cars. "Hot Wheels is ingrained into the psyche of every boy around the world, but with the popularity of video games, we have lost sales with 8+ year-old boys."

Making Hot Wheels relevant is obviously one of the big questions Walker faces in his new position, as is how to add innovation to their radio control business.

"For us, everything we do is based on innovation. Focus and innovate is the mantra I laid out to the team when taking over this business," he relates.

Geoff Walker, VP Mattel Wheels: "I wanted to be in an industry where I could enjoy the products I touch and at the same time have a lot of fun doing it."

"As a result, we came up with a new ad campaign. We're also trying to do fewer things better, and that is the challenge for the brand as a whole. If you can focus on the job at hand and key issues across each business, and innovate your product line, then success will follow."

Many would think Walker has the best job in the world, and he wholeheartedly agrees. He grew up in California close by to Mattel, and around people who worked for the company, but he himself first went into public accounting. "It was not a very fun industry, and I wanted to be in an industry where I could enjoy the products I touch and at the same time have a lot of fun doing it."

And fun he does have—from the Mattel lobby to employees' cubes, the place is filled with toys and games that any kid would crave. "Toys are all over the place; they are in everyone's offices. Outside my office, we have a video game area where we go play all the time." What would he do if he had 15 minutes to spare? Probably go play *Splinter Cell*, he says with a laugh.

> From the Mattel lobby to employees' cubes, the place is filled with toys and games that any kid would crave. But make no mistake—the fun and games is also hard work in an effort to understand the customers firsthand.

But make no mistake, the fun and games is also hard work. "We do a lot of research with kids and parents to understand our consumers firsthand. What are they playing with? What's captivating them? We want to know the emotional triggers that drive them to want a toy or their depth of play with a toy, and to make sure we are aligned with where kids want in our products. It's fair to say that most of the successful people at Mattel have a fun attitude not just about their work, but really about everything in life, and they get involved where the kids are—skateboarding, moto cross, etc. I admire the people on my team because they do these kinds of activities all weekend long."

Owen, he says, enriched his life in many ways, but in particular through his great education with a broad marketing focus, his network of friends, many of whom he is still in contact with, and the chance to live in Nashville, which he says is a fabulous part of the country. So when it came time to develop an intern program at Mattel, Walker made sure that Owen was on the recruiting list. "We have gotten a lot of great students there, and we continue to go back every year."

The qualities he is looking for in students are 1) are they smart? 2) are they motivated? 3) are they a good corporate fit? and 4) do they have passion for our product lines? "For instance, are you into video games, reading comic books, watching cartoons, riding motor cycles? What drives you outside of school work? Do you have the passion [or in the case of Hot Wheels, the vrrrrooom] we need?"

Over the years, he has literally interviewed thousands of people from many schools for these positions. "Candidates need to differentiate themselves somehow. Some bring in their favorite toys from over the years; some make full presentations on how they would create toy lines. The funniest have been the power points people have brought in showing the toy lines they have created about themselves," he says with a laugh. VB

All the Buzz

Advice and Insight from Marketing Camp

Marketing Camp, held the first week of January, helps prepare students for marketing management positions. The program is designed to help marketing students take what they learn in the classroom and apply it to work they will do in such positions, and expose them to current "hot" marketing issues that will aid them in job interviews.

Marketing the marketers: In addition to the alumni who served as speakers at Marketing Camp, 20 alums came back to campus to do mock interviews with students. Those prepping students included from left, standing: Mark Barry, Jodi Kravitz, Teran Andes, Lisa Dwyer, Eric Drabiuk, Brian Hall, Mark Ozimek, Manuel Delgado, Jennifer Lemming, Brook Capps, Marcus Van Ameringen; seated: Jami Smith, Shekar Venkateswara, Mark Roberts, Robert Goldstein, Tonya Horton, and David Silverman.

Photography By DANIEL DUBOIS

Travis Sheetz, '95

Sheetz, Inc.

Pioneering and change is in the Sheetz DNA, said Travis Sheetz, VP of Operations for the Altoona, PA-based convenience store chain. Included on the *Forbes* list of top private companies in the U.S., they offer "super convenience stores," with a larger footprint than most other chains, and a full food service program. "At one time, we just sat back and got products from a consumer goods company at a good price and then put them on the shelf. But things have changed," he said. "Everyone is marketing gasoline, and although the retail price is high, the margins shrink every year. Convenience retail is also meshing with drugstore retail and mass merchandise retail, which forces us to be innovators in all aspects of our business." Innovation has led to the concept of the convenience restaurant, a full service coffee program, changing their logo from a gas to a food logo, instituting loyalty programs, kiosks, and z-pass readers chain wide, among others. "We are looking ahead and don't want anyone catching us," Sheetz added. "Our business statement is, if anyone puts Sheetz out of business, we want to put Sheetz out of business."

Bill Levisay, '85

The Coca-Cola Company

Coca-Cola sells more than a billion Cokes a day, and about a million of those for the first time, said Bill Levisay, SVP, Customer and Alliance Marketing. (Levisay in fact shared a brand new drink—Tab Energy—with those at Marketing Camp, making participants part of that million that day.) "Everyday we have a chance to make or break it. Thirst knows no boundary. Almost everyone wakes up thinking about 66 ounces of something to drink that day, and we are going to do our best to take our share." While they make concentrate and have a $150 billion wholesale business around the world, "a business always comes down to a person-to-person transaction someway or somehow. For us that is adding value one drink at a time." Innovation is particularly important to the 120 year-old company filled with traditions. "We need to be respectful of where we have been, then follow it up immediately by asking ourselves, 'how can it be better?'" Levisay's formula for progress: Focus outside the house, multiplied by a nervous itch to understand consumer need equals progress. "You can get consumed internally in a nanosecond. When that happens, companies risk not being a part of the market anymore."

Linda Crowder, '82

Kraft

Everyone has grown up with Kraft products, or so it seemed. "For years, our company accounted for about a dime of every dollar spent in a grocery store," said Linda Crowder, senior director of Collaborative Marketing. "But the reality is we now live in a multicultural world. In the next 10 years, the Hispanic population will grow by 26 percent, and their buying power will continue to grow as well." Research showed that Hispanics knew of Kraft and thought it was a good company but didn't see its products as relevant to their lives. Research also showed that one of the important things to these consumers is familiarity with their homeland. So Kraft developed new marketing initiatives to get their messages out to all consumers. For instance, Kraft became a multi-year sponsor of *Sabado Gigane,* the longest running variety show in the world and developed many local promotions relevant to the newly arrived Hispanic immigrant.

John McCauley, '94

Loews Cineplex Entertainment

The movie theater business has strong competition from ipod downloads, video on demand, and cable. Even so, it is healthy and makes a lot of cash, with 75 percent of the population going to at least one movie in the last 12 months, said John McCauley, SVP Marketing, (at press time, EVP Global Marketing Partnerships, The Weinstein Company). People tend to choose a film first and location second, so the 100-year-old company still draws on the words of its founder Marcus Loew: "The show starts on the sidewalk," to enhance their patrons' experience and draw them in. Creative programs include "Reel Moms," designed by McCauley, which offers special daytime showings for moms who want to bring their children to the movies. Loews is the dominant movie theater company in the U.S., with 83 percent of their theaters in the top 10 markets, so "retailers are interested in advertising in our theaters to influence where moviegoers go eat and shop after the movie, which in turn helps us deliver our position." There are tons of opportunities in the marketing space, he pointed out. "Follow the money and understand your resources. Then figure out how to leverage that to create opportunities."

Luanne Calvert

Mixed Marketing Inc.

It is important to go beyond the 30-second TV spot today and do mixed marketing to hawk products and services, said Luanne Calvert. She should know—her name is almost synonymous with the concept. The founder of Mixed Marketing Inc., now creative director at Google, says buzz marketing involves creating, executing, and measuring live marketing stories that get consumers and the media to notice and talk about a brand. Components are direct impression, word of mouth, publicity, and online. "The result is a great ROI," she said. Her recipe for success includes keeping the message simple, creating a strong visual, and capturing the imagination. One of her more unusual projects involved a live billboard for Calvin Klein perfume in Times Square, with models dancing on a three-story platform, creating the illusion of a nightclub. They handed out samples and got TV coverage, with more than 250 million TV hits worldwide. "We tracked sales at Macy's that day and were pleased." Another fun project: a Joe Boxer talking underwear vending machine. A voice from the machine called out to passersby on the street, "Hey, I think you need new underwear!" All of these efforts help get the buzz going. "People really do own your brand, and through blogging and other means become your own brand ambassadors."

Chris Rouse, '92

Unilever

Chris Rouse likes to wander the grocery aisles. The shopper insights manager for Unilever wants to find out what you put into your grocery cart and, when faced with a 24-foot salad dressing section, why do you pick one brand over another? This research is not only for Unilever's brands but also for their retail customer store brands. Shoppers have different requirements for different kinds of shopping trips, and more outlets are selling food, making it harder for traditional grocery stores to compete. Most prevalent now is the "quick trip," where shoppers look for something for dinner tonight and tomorrow night, and want in and out of the store quickly. Traditional grocery stores can compete on these trips, because it is more about convenience than price, Rouse said. The "stock up" trip on the other hand is more about price and smart shopping, and that is where the big box stores become important. Rouse also helps stores with product placement to help food drive traffic through stores. "With all of the celebrity chefs, food has almost become the new fashion," he says. "We are hoping to bring some of that excitement about food into stores."

Tom Barr, '98

Starbucks

STARBUCKS IS NOT A COFFEE COMPANY SERVING PEOPLE BUT a people company serving coffee, said Tom Barr, vice president, Food. "Being about people means having to make hard decisions—giving every partner (employee), full-time and part-time, health coverage and company ownership, for instance, and treating everyone with respect and dignity. Being about people also means being about communities. "That includes making a $5 million donation commitment over five years for the rebuilding of the Gulf Coast after Hurricane Katrina, donating $10 for each hour our partners volunteer for qualifying projects in the community, and paying coffee farmers a higher price," he pointed out. "We want to support the farmers who support their communities." Previously, as director of Hot Beverages, he was part of the team who executed "The Way I See It" program, featuring various quotes on their coffee cups. "Some of the quotes may be viewed as controversial, and this struck some people as Starbucks taking a position on certain issues. But we are a coffeehouse and want to foster conversation. If you read your quote and like it, or even if you don't like it, start a conversation about it with your friend or someone sitting at the next table."

Brad Hirsch, '03

Harrah's Entertainment

BRAD HIRSCH, DIVISION VICE PRESIDENT of Customer Satisfaction Assurance (CSA), knows that when it comes to customer loyalty, all bets are off. "The gaming industry is hypercompetitive—we know our customers are constantly receiving offers to visit our competitors." But the company that also owns Caesars, Horseshoe, and the World Series of Poker brands knows how to play their cards. They are not only using their loyalty card program and promotions to increase customer loyalty, but are also working hard everyday to deliver a superior service experience. "We can do all the marketing we want to create demand for our products, but if customers have a lousy experience, they'll never come back. Great service is terribly hard to imitate and thus creates a strong competitive advantage for us." Through the use of a very scientific and systematic methodology to measure the guest experience, Harrah's has been able to prove the Service Profit Chain by demonstrating incremental revenue is created from improvements in service. In order to execute the brand's service promise, Harrah's specifically focuses on establishing service delivery systems to ensure the most valuable guests consistently receive a great experience. "Great service is no accident," he added. "As a result of our CSA program, we have enjoyed 21 consecutive quarters of improvement in customer service as measured by our guests. This not only creates a win for our customers, but also our employees and shareholders."

David Rados

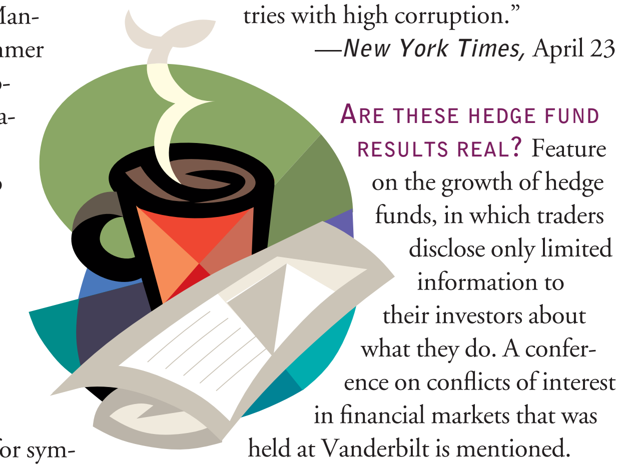
Retired Professor of Marketing

CONTRIBUTION IS THE MARKETER'S BASIC financial tool, said David Rados, and, as every MBA knows, it's similar to marginal profit. (Contribution =revenue-variable cost.) Marketers also need a marketing control statement on each important part of their marketing program, each product, each product line, each territory, each promotion. (Revenue-variable cost=gross marketing contribution-programmed marketing costs=net marketing contribution.) Break-even point analysis is also useful in marketing, given the state of marketing know-how, as is knowing distributors' gross margins, inventory turns, sales per square yard, and such. Rados led the Marketing Camp students through these concepts and problems involving Kodak Funtime Film, car manufacturers, auto vacuum cleaners, Dunkin' Donuts muffins, and Pizza Hut. "Pushing the Numbers in Marketing" is what Rados calls it, as he has written a book of that same name that most recent Owen marketing graduates know well. "Marketers have to work out the financial consequences of their decisions," he said. "To do that, they have to have a good idea of what distribution margins are. There's a constant interplay of the financial side with the marketing side. Marketers have to know this: It balances out the creative side. It's too easy to give the store away to increase sales but not increase contribution. That's not what business is all about."

Headlines from Around the World

Above the Fold: In Search of Cool, Buffett's Stamp of Approval, Politics and Business, Benefits of Corporate Social Responsibility, more

RIC THORNTON



STIPEND PROGRAM TO FINANCE BUSINESS PLANS AT OWEN. Vanderbilt's Owen Graduate School of Management has launched a Summer Enterprise Development Program, a donor-financed initiative that gives up to four students $15,000 stipends to develop their business plans over the summer.
—*Nashville Business Journal,* May 26

IN SEARCH OF COOL. Need gift-giving advice for teenagers? "Teenagers look for symbols from their peer groups instead of their parents," said **Jennifer Escalas**, associate professor of management and marketing at Vanderbilt University. "By the time the parent figures out what's cool, it isn't cool anymore." Unfortunately, what's cool with friends sometimes isn't cool in the home, as with objectionable clothes, video games, or music. In these cases, Escalas suggests trying to meet them halfway.
—*Sacramento Bee,* December 10

POLITICS AND BUSINESS. **Mara Faccio**, assistant professor of management at Vanderbilt University, looked at the cases of 109 capitalists and entrepreneurs who were elected to political office in 47 countries. Faccio reported that the politicians' companies experienced a 2.3 percent increase in their share prices, on average, around the time of their electoral victories. "The results suggest that the politician is acting in the interest of the company," she said in an interview. "And the effects were much larger in countries with high corruption."
—*New York Times,* April 23

ARE THESE HEDGE FUND RESULTS REAL? Feature on the growth of hedge funds, in which traders disclose only limited information to their investors about what they do. A conference on conflicts of interest in financial markets that was held at Vanderbilt is mentioned.
—*New York Times,* April 21

CAN MBAS CURE HEALTH CARE'S AILMENTS? Feature on MBA students who view the nation's health care challenges as opportunities to make money and help people. **David A. Owens**, clinical professor of organizational studies, and Owen Graduate School of Management student **Woodrow Lucas** are quoted.
—*Businessweek.com,* March 22

DEVELOPING BUSINESS LEADERS. A leadership development program for MBA students has been launched by the Owen Graduate School of Management at Vanderbilt University. "We believe that by focusing on the key five areas of leadership the LDP will provide the most effective training available at the MBA level," says **Jim Bradford**, the dean of Owen.
—*Financial Times,* March 6

'REGULAR GUY' STEERS BRAND NEW AIRLINE. **Doug Parker** ('86) was the marquee speaker at the Las Vegas World Aviation Forum here, but the Owen alum and CEO of the "new" US Airways may also have been one of the event's most unassuming guests.
—*USA Today,* November 27

PRICEY JEANS GIVE HANMI CEO LEG UP TO TOP RANK OF FORECASTERS. Sung Won Sohn earns top place in the *Wall Street Journal's* annual U.S. economic-forecasting rankings. **J. Dewey Daane**, Frank Houston Professor of Finance Emeritus, was also among the most accurate.
—*The Wall Street Journal,* January 3

CSR TAKES PLACE OF SOME SOCIAL WELFARE REGULATION. Professor **Mark Cohen** says that as globalization increases pressures against regulation, voluntary social initiatives, in the form of CSR, have taken the place of some social welfare regulation. It can also bring benefits to corporations, enhancing name recognition and serving as an effective way to raise competitors' costs.
–*Technology Commerce Society,* March 16

BUFFETT LETTER JUST THE JOB FOR GRADUATE. **Richard Wright**, who received a master's degree in business administration from Vanderbilt, is seeking a job as a stock analyst in New York. He has a recommendation letter from Warren Buffett that may do the trick.
—*Bloomberg News,* February 9

The Ethical Culture

Developing Ethical Skills Takes Practice, and the Corner Office is not Exempt

By SHARON H. FITZGERALD

When American International Group Inc., one of the world's largest insurance companies, agreed earlier this year to pay $1.64 billion to resolve an alleged accounting scheme designed to mislead regulatory agencies and even investors, it was just another episode in a long litany of unethical—and very expensive—business calamities. With the once-powerful leaders of Enron, WorldCom, and Tyco the punch line of jokes worldwide and the phrase "business ethics" dubbed an oxymoron by many, what is corporate America doing to shed that dishonorable mantle?

GETTY IMAGES

Quite a bit actually, and it's not just a fashionable effort to thwart the headlines. "It's always been critically important," says Owen Dean Jim Bradford. "Lots of incidents have elevated ethics to the public forefront, so part of the renewed and stronger effort is really to illustrate how many different circumstances arise in daily life that raise ethical issues to us."

Alice M. Peterson and her company's counselors have heard it all: accounting fraud, abuse or intimidation of employees, safety violations, sexual harassment, theft of company property, discrimination, environmental noncompliance, and lying to employees, customers, vendors, or the public. And that's an abbreviated list. A 1981 Owen graduate, Peterson is president of Syrus Global, whose flagship service is Listen Up, a whistle-blower hotline system for businesses and organizations. "I was just amazed how great companies could have gone off track so badly and so quickly," she says, explaining why she launched her company in 2002.

According to the 2005 National Business Ethics Survey, 52 percent of U.S. employees observed at least one type of misconduct in the workplace during 2004. Each year the Ethics Resource Center, a Washington, D.C.-based nonprofit organization, surveys American workers to analyze trends in business and organizational ethics. The latest survey found that:

- 21 percent of workers observed abusive or intimidating behavior.
- 19 percent observed lying.
- 18 percent observed employee interests placed over organizational interests.
- 16 percent observed safety violations.
- 16 percent observed misreporting of actual time worked.
- 12 percent observed discrimination.
- 11 percent observed stealing.
- 9 percent observed sexual harassment.

The survey also revealed the importance of an "ethical culture," which ERC defines as "the informal and social system that sets norms for employee behavior and that tells employees how things really work in that organization." Survey respondents who identified their organization's ethical culture as weak reported a higher level of misconduct than those who work in a strong ethical culture (70 percent compared to 34 percent).

Ethical Culture

"The phrase 'ethical culture' has everybody buzzing now," says Megan Barry, a 1993 Owen graduate. That's because, thanks to the Enron-era scandals, those two words are incorporated in the U.S. Sentencing Guidelines regarding white-collar crimes. The guidelines encourage decision-makers to create an ethical atmosphere in their organizations through mitigation of a sentence— should a problem arise— if ethics and compliance efforts had been made.

DANIEL DUBOIS

Alice Peterson started her company because she was amazed how great companies have gone off track so badly and so quickly.

Barry is the ethics and compliance officer for Premier Inc., a hospital group-purchasing alliance. Thus she is one of a growing number of professionals who earns a living today in a burgeoning ethics industry that boasts trade organizations, consultancies, conferences, journals, and even awards for corporate virtue. Not surprisingly, Barry believes companies should employ an ethics and compliance professional to facilitate a code of conduct across the organization. She makes a distinction between her position and someone who is strictly concerned with compliance: "Compliance is about obeying the law and being compliant with a standard, and usually that standard is the law," she says. "That's the piece we should just get right anyway." The ethical component is a little trickier, she adds.

Barry recalls that, when Premier instituted its code of conduct, employees were required to sell stock they held in any company with which Premier does business. "The reason why is that we're basically a purchasing organization. The perception in the marketplace was that if you have stock in a company, you might be more motivated to choose that company as a vendor. For us, that has huge implications," Barry explains.

DANIEL DUBOIS

Megan Barry, as an ethics and compliance officer, helps employees recognize when they find themselves in an ethical dilemma.

Since Premier has contracts with more than 80 percent of the companies represented on the Dow, many employees' stock holdings were affected. Furthermore, spouses and dependents of higher-level Premier employees were also required to divest. "If my son gets a share of Starbucks Coffee from his grandmother, he can't hold it," Barry says.

Implementing the stock policy was "pretty tough," she says. "We had a lot of people who were angry because, first of all, they really felt that they didn't have that kind of influence—for instance, a secretary required to sell her 100 shares of General Electric. It's been a long road, but we're finally to the point where they really get it now. It's about perception."

Barry does all Premier's ethics training face-to-face with employees. "That is because I believe that the relationship part is going to make the difference," she says. "They [Premier employees] can pick up the phone and call me [to report malfeasance]. They trust me and know me." She sees her job as helping employees recognize when they find themselves in an ethical dilemma, and "creating that intellectual and ethical space" where employees are comfortable.

> Compliance is about obeying the law and being compliant with a standard, which is usually the law. The ethical component is a little trickier.

Since Barry reports directly to the Premier board of directors, she says her role is that of "an independent voice." She adds, "I didn't want to come into an organization where I didn't have any power. I don't report to senior management … and that reporting relationship to the board is so critical."

Dean Bradford sees the steps taken by companies like Premier as evidence that U.S. business is embracing ethical considerations and addressing those concerns within the organizational structure. "There is a lot of renewed awareness in this area, and this is not just ethics," he says. "It also deals with corporate social responsibility. That piece has moved from 'an interesting topic' to one which has a lot of corporate world focus."

Bradford says it would be "unusual" today for a company not to express in writing its values and goals in some sort of code of conduct. Also becoming more commonplace are whistle-blower hotlines or similar programs that allow employees to anonymously report the misdeeds of colleagues.

Blowing the Whistle

Peterson doesn't pull any punches, saying that "every single person who's worked in corporate America" has found himself or herself in an ethical quandary before. That's why Peterson launched Syrus Global, an ethics and compliance solutions firm. Her inaugural offering was Listen Up, a confidential two-way communication service that businesses and organizations can hire. In addition to untraditional whistle-blower hotline operations, Listen Up offers its clients help acquainting employees with the service, as well as follow-up oversight to ensure that anonymous tips are investigated and results analyzed appropriately.

"We go over the top in terms of protecting the confidentiality of the callers," Peterson says. "If you don't have that, you might as well not have all the other beautiful features. Safety's a critical ingredient."

Peterson says her company offers "an anonymous and confidential way for people to speak up about wrongdoing, about sensitive issues, about critical suggestions that they would never put on the table in open dialogue." Submitters may contact Listen Up via phone, fax, Web, and even by mail. Most call or use the secure Web option, and they reach counselors with master's degrees who are trained to promote an open dialogue and make submitters feel at ease. Each confidential submitter receives a unique five-digit code, which can be used to track progress on his or her tip and to carry on an anonymous dialogue with management.

Managers and board members may also go online, using a high-security password, to see what these anonymous employees are saying about the company. Peterson calls this feature of the service "a great governance tool." There's also a feature called "bypass notification," so that reports from anonymous tips don't go to the highest levels of the company if the tips are *about* the people at the highest levels of the company.

Peterson stresses that corporate America suffered a body blow to its reputation with the scandals early in this decade, but she adds that "this didn't happen overnight, and it didn't happen because of a single individual. These were cultures that were cumulative. They started out with little things and, like a snowball, they picked up more and more as they kept rolling along."

Just like Barry, Peterson emphasizes that "perceptions create the reality that can be damaging to a company. … If there is just the *possibility* that there's something wrong, you're already on the defensive. So protecting the reputation of the company is, of course, critical." Today's 24/7 news cycle doesn't help. "It is a matter of minutes before the press has descended on you," she says.

Despite negative headlines, Peterson says she still meets corporate leaders who believe their company is immune. "Even today, there are CEOs who believe it could never happen to them. There are CEOs who believe they know everything that's happening in their company. There are CEOs who believe that their company is different, that their employees open up to them because of their charm and magnetic personality," she says. Peterson adds that even the most charismatic management and the best ethics officers are complemented by a high-quality anonymous employee reporting mechanism. "It's the sky diver's second parachute," she says. "Who would jump without it?"

It Starts at the Top

A former CEO himself, Bradford agrees that the ethical culture of a corporation is born in the corner offices. "My own experience as a CEO was that you cannot ask individuals to do what you wouldn't personally do yourself. You can't fly in on the corporate plane and stay at the Four Seasons, and then walk on the plant floor and tell them they need to cut costs," he says. "It's about leadership and maintaining a set of values in difficult times as well as good times."

Corporate America suffered a body blow to its reputation with the scandals early in this decade, but it didn't happen overnight, and it didn't happen because of a single individual. These were cultures that were cumulative, starting out with little things, and like a snowball picked up more and more as they kept rolling along.

But just what are those values – and should you have learned them by kindergarten? "Every human being gets a sense of right and wrong by the time they're 5 years old," Peterson says. Yet she believes that you can "train your brain" to react appropriately in the face of ethical dilemmas. "If you've done it a lot, you get better at it, and if you've done it very little, you need practice," she says.

That's why she believes America's business schools could be doing more to prepare future business leaders. "They should be teaching students how to go through a systematic process for determining a professionally responsible outcome," she says.

Bart Victor, Vanderbilt's Cal Turner Professor of Moral Leadership, says Vanderbilt and Owen work to "better integrate the common conversation about ethics in not just our core courses but across the electives." Victor teaches a high-level Ethics in Business course and another in health care ethics.

Victor says corporate America's challenge is that, unlike other professions such as medicine and law, there is no established, formal code of ethics. Thus, business professionals are writing it as they go, yet basing it on tried and true principles.

"Economics, which is our mother science, is a moral discipline and it explicitly – and perhaps more important, implicitly – carries all sorts of values, preferring efficiency to waste, preferring merit to tradition in terms of who gets to make decisions, preferring growth to stagnation, preferring equity to equality. Those are very, very powerful and important moral positions as well as fundamental ways that we go about doing business," he says.

Thus, ethics courses should "provide the kind of support and sophistication necessary to take your intention to do good and to do right and make that real. Business is complex and difficult and hurried, so you need very, very well-developed skills to make sure that what you do isn't just empty intent."

What Is Taught

While Victor acknowledges that business ethics training at Vanderbilt "puts a great deal of opportunity and also responsibility on the individual student," it also offers occasions to examine best practices and build strategies based on what works. "We're not trying to change people from one moral position to another. We're trying to help people so that they can take the moral position they bring to business and execute it well," he explains.

Individuals bring to the business world virtues they have acquired from their faith, their family, their admired colleagues, and even their intuition, but they may not know how to live that life in the business world. "That's hard. That's very, very difficult, even when you're trying to do it right," Victor says. "That's where we take the conversation. How do you handle the competing values of growth and security? When is growth too fast? When is growth too diversified? How do you think that through and make that a personal, moral choice?"

NEIL BRAKE

Bart Victor: Ethics courses should "provide the kind of support and sophistication necessary to take your intention to do good and to do right and make that real."

The question may be as simple as when to define spending as an expense and when to define it as an investment. "A lot of that has to do with how I communicate to people who would invest with me," Victor says, adding that many times the yin and yang is simply "the relationship between money and motive."

The notion that being a law-abiding business executive is enough simply won't fly in today's highly scrutinized business environment. "The law is a cousin to ethics … and one of the things we know in business is that the law falls very short of carrying what we personally would intend. The law is slow and we're fast. We all know that if you only followed the law, you wouldn't be doing exactly what you ought to be doing. You have to do more," Victor says.

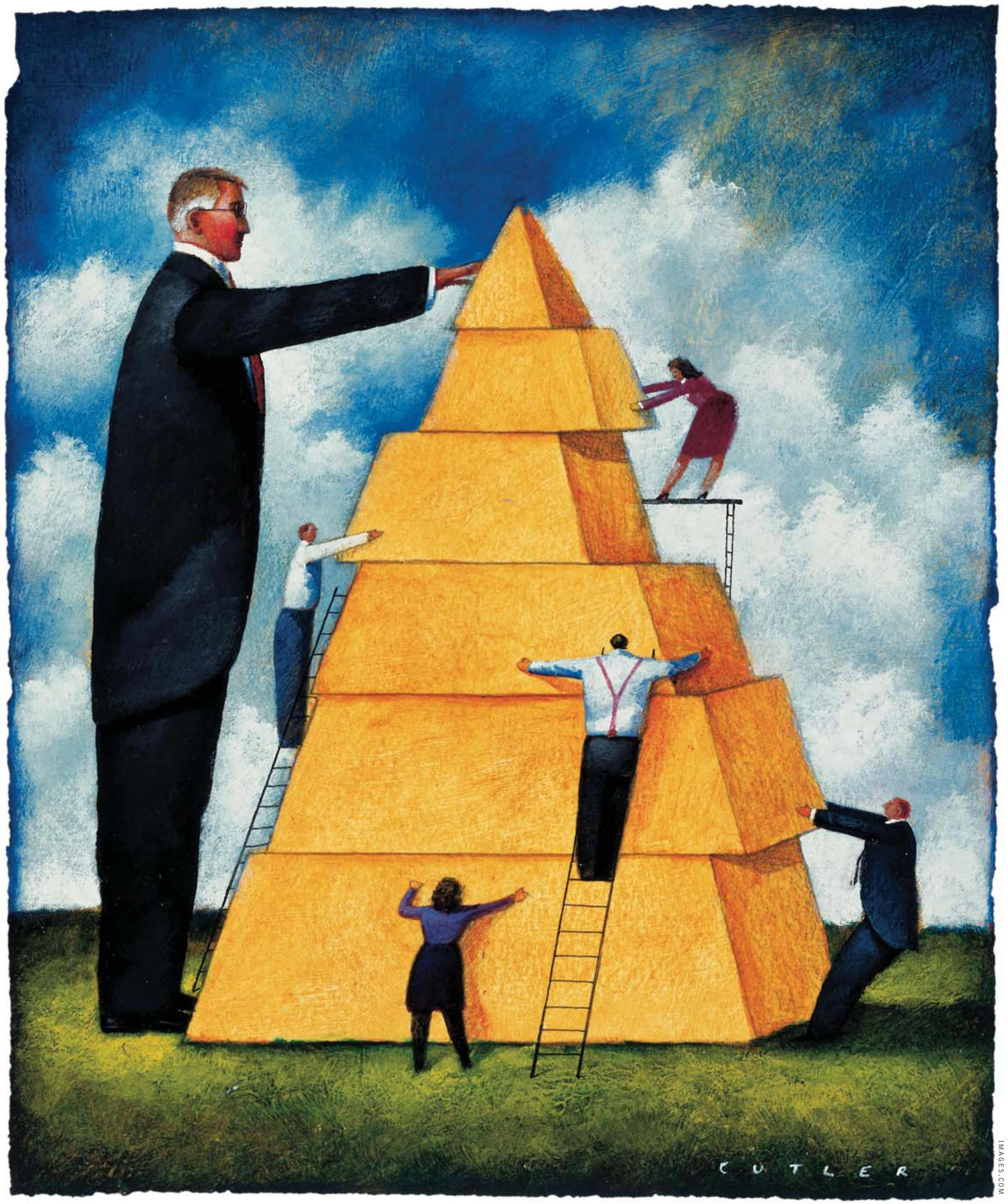
Certainly, most people don't think of business as a place where they have to sacrifice their integrity, and Victor says today's students don't see it that way either. Quite simply, folks recognize the difference between right and wrong. Then they make a decision. "No course is going to stop people if they are intent on making bad choices or are vulnerable because of what life offers to them. We're not going to eliminate the problems of the WorldComs of the world in an ethics course. These people knew what they were doing. They had no problem in understanding that it was wrong, and they did it anyway. They weren't confused, and it wasn't because they didn't have a course," he says.

What's different today is speed – just how quickly the Ken Lays of the world can create and execute a scheme and just how quickly that scheme can be revealed. "The fact that these people had the *capacity* to influence that much money is relatively new," Victor says. "But waste, fraud, abuse, lying, cheating – I don't think we invented any of those words."

So don't try to convince Victor that business has lost its moral footing. Here's what he'll say: "Business' position, I believe, is the single most important and influential social creation force in the world today. Business is transforming the nature of the world and transforming it extraordinarily rapidly and with great, great impact. We in business are doing that work, so that when we create jobs and when we create environmental conditions and when we create wealth and when we create participation, all of those have extraordinary impact on people in our communities and in our nations. That's what we're doing as we pursue business."

Every human being gets a sense of right and wrong by the time they are five years old. But you can train your brain to react appropriately in the face of ethical dilemmas. If you have done it a lot, you get better at it; if you've done it little, you need practice.

Then he adds: "Very few human beings in the world have had an opportunity to do as much of great impact and importance as do our students today in business school." VB



IMAGES.COM

Wanted Older Workers

No Longer Seen as a Liability, Seasoned Workers May Hold Keys to Business Success

By LISA A. DUBOIS

Erica Whittlinger's job running a money management firm was exciting, high-powered, lucrative, fast-paced—and it was killing her. She began suffering from heart problems and realized that if she kept up her current lifestyle, she was literally going to die at her desk. Instead, she sold her company and entered into a partnership as a founding member of The Refirement Group, a consulting firm that helps individuals and corporations prepare for the shifting demographics of the American workplace. As a sideline, and for fun, the 56-year old Whittlinger, '72, also spends her winters teaching ski lessons to adults at a Utah ski resort.

"I'm now in the sub-basement of the instructor hierarchy," she says with a laugh. "After being my own boss, it's interesting for me to suddenly have a boss after all these years. So far, I've successfully managed not to tell anyone how they should be running a ski school!"

Joe Rolwing spent the first 27 years of his professional life working in the not-for-profit sector. By the time he'd reached his mid-fifties, he was feeling unfulfilled. The work was no longer challenging, he wasn't growing intellectually, and he found himself belaboring the same kinds of problems over and over. He had entered into a comfort zone, he says, which was causing him to doubt his value as a contributing member of the workforce. Like Whittlinger, Rolwing came to a life-changing decision and made a risky mid-career move. He accepted a new job as the director of the Life Sciences Center for Cumberland Emerging Technologies, a scientific-business incubator for early stage pharmaceutical research projects. He also heads up the Tennessee Biotechnology Association, a trade group formed to promote biotechnology ventures within the state of Tennessee. At age 62, he provides a certain stability, an anchor, in a business enterprise fraught with youth, derring-do, and volatility.

Rolwing says the owners of the Life Sciences Center were specifically looking for somebody older, independent, self-motivated, and with a good business record. "Most of our tenants here are scientists, but they don't have much practical business knowledge," he explains. "I think I've been a fairly good resource for them. And I have experience networking so that if they have a particular problem, I may know of someone who can help them solve it."

Whittlinger and Rolwing are examples of a growing trend in the American workforce. As they age, they are choosing to ignore the standard concept of

Erica Whittlinger helps seasoned employees get in touch with their core values so they can make adjustments to feel happier at work, to plan for the future, and to fire up their careers.

retirement and instead are retooling their careers so that they can remain productive, active, viable members of the professional labor market. They are doing so by capitalizing on and sharing knowledge and expertise they have acquired over decades of white-collar employment.

As the notorious Baby Boom generation (those born between 1946 and 1964) continues to mature, economists predict a tectonic shift in American industry due to the enormous number of people set to cash in on their pensions. Right now, nearly 20 percent of the American population is age 55 or older. By the end of the next decade, 76 million boomers may be ready to retire. The alarm bells are just beginning to sound for employers, warning of the dearth of comparable younger workers coming along behind. In fact, some experts predict a future shortage of up to 10 million workers.

According to recent census data, in 1955 the age distribution of the American population was shaped like a pyramid—with a large base of children at the bottom and tapering upwards into a very small apex of elderly citizens. In the first decade of the 21st century, however, the populace has bulked up into more of a dome shape, with a growing number of people at the mid-line, around age 40 and above. Given that Americans are living longer, what this means is that in the next 10 to 20 years either vast numbers of people will be spending almost as many years in retirement as they did in the workforce, or that corporations will have to adjust their employment policies and market strategies to accommodate older workers.

These morphing demographics present an unprecedented challenge to U.S. businesses. They also pose, for those savvy enough to get in on the front end, the kinds of ripe opportunities that haven't been seen since the biotechnology boom of the 1980s and '90s. All that's needed is a modern-day version of Bill Gates or Steve Jobs to step up and figure out how to tap into the goldmine.

"The high-tech bubble was so huge in the 1990s, and likewise there has got to be a lot of money to be made in the retraining and reconfiguring of companies to accommodate baby boomers. We are talking about millions of people and thousands of companies, which

As workers age, they are choosing to ignore the standard concept of retirement and instead are retooling their careers so that they can remain productive, active, viable members of the professional labor market. They are doing so by capitalizing on and sharing knowledge and expertise they have acquired over decades of employment.

translates into a potential fortune waiting to be made," says Paul Frankenberg, E '03, president and cofounder of Kraft Search Associates, LLC, a retained executive search firm focused in the health care and financial services industries.

From his vantage point, Frankenberg sees the competitive advantages that more senior personnel can bring to the table. "People well into their forties and older, as a generation, are not ready to check out," he says. "They've gone through the changes of the '70s, '80s, and '90s, they've gone through the introduction of computer technology, and they are competent enough to adapt to anything revolving around working hard and doing global business. Their maturity, communication skills, and soft skills are so valuable that they often beat Generation X workers hands down."

In spite of that, most businesses are geared to court and recruit the younger employee. Many soon find, however, that the "core values" of Generations X and Y are not the same as those of the baby boomers. "Boomers love their titles, their perks, their status. They love visible rewards," says Whittlinger. "I knew when I got my MBA I could join a company and after 18 months I would get a promotion and a bump in my salary, and maybe even get a better desk. But for young people today, lifestyle is number one."

Frankenberg agrees. He says boomers understood that if they wanted to advance in their careers and land a better job, they would likely have to relocate. Complying with the status quo, they dragged their families from place to place as they climbed the corporate ladder. Their successors, on the other hand, are far less interested in moving around. Instead they prefer to choose someplace to live and then find a company in that area.

"They don't say, 'I want to work for GE,' but rather, 'I want to live in Denver, so find me a job where I can do what I do and live in Denver.' The statistics are staggering in the number of times people will change jobs and even change industries, but remain in the same city," he says.

A company's stability, however, depends upon the retention of its best workers, no matter what age they may be. For that reason, Whittlinger's firm, The Refirement Group, helps seasoned employees get in touch with their core values so they can make adjustments to feel happier at work, to plan for the future, and to fire up their careers. Sometimes that entails helping individuals get control of their personal finances, helping them find volunteer activities outside of work, or arranging a more flexible work schedule or shorter hours. The bottom line is that to remain successful, corporations are going to have to restructure and adapt along with their workers.

Even if boomers weren't forcing these changes, says Whittlinger, the huge ethnic and racial shifts occurring in this country make them inevitable. "Half of the net workforce is going to be Hispanics and Asians, and a growing number of people define themselves as multiracial," she explains. "Meanwhile, we've got aging white men running most of our major companies. So one of the workshops we offer is on intergenerational values in the workplace. A lot of white boomer men think that everybody has the same values that they do—and they don't."

Transforming a corporate business model is a delicate maneuver, says Brian Ferguson, chairman and CEO of Eastman Chemical Company, which employs 12,000 people and manufactures and markets chemicals, fibers, and plastics worldwide. Because he runs a company that has a workforce comprised of a great number of baby boomers, he is concerned about the aging demographic of his employees. He likens it to balancing on a burning platform.

"Can our older workers keep up in a faster moving world?" Ferguson asks. "The answer is mixed. It depends on their willingness to embrace change. There's a fine line between putting employees on a burning platform that makes them

DANIEL DUBOIS

Joe Rolwing made a risky mid-career move, and now is not only more self-fulfilled, but brings a sense of stability to his new company.

embrace change, and one that causes them to run for the door. If we scream and yell and tell them that if we don't embrace change this company will turn to dust, then they'll just jump off the platform and swim to another one."

Instead, Eastman executives try to craft their message so that professional employees feel like the company has an exciting story to tell—that they are participants in pioneering, cutting-edge technology. For technical and hourly workers, the message is that Eastman is a good company to work for and that by adapting to change they will continue to develop skills that will help them retain their value in the workforce and provide well for their families.

Unfortunately, American businesspeople can no longer dance around one yawing obstacle in a competitive marketplace—namely, that American students don't have the same skill sets in math and science as their forebears. "In the last few years, the U.S. has ranked in the bottom of the top 20 developed countries in terms of math and science students. We can't possibly continue to live in that position and expect we are going to maintain ownership of the technology sectors," states Bruce Lynskey, clinical professor of management at the Owen School. "There's no question that science and technology have an image problem in our domestic education system. To companies in those sectors—biotechnology, medical technology—the aging workforce is frightening, because they don't have replacements for those high-knowledge employees."

Many companies are taking a novel approach to solving the problem, Lynskey says, by cherry-picking students from the most prestigious universities and offering them jobs no matter what their backgrounds. Executives reason that these students have shown a fire in their bellies just by surviving the vetting process of getting into those schools. If willing, even philosophy and English majors can learn on-the-job marketing, finance, or investment banking.

Paul Frankenberg says that just as in the biotechnology boom, "there has got to be a lot of money to be made in the retraining and reconfiguring of companies to accommodate baby boomers."

A comparable scenario is taking place in the executive search industry. New York-based J. H. McCann & Company, Inc., which recruits for investment banks, private equity firms, and hedge funds, has responded to the lack of talent at the junior level by raiding other types of businesses.

"We realize how tight the workforce is. So instead of stealing and paying up for talent from competitors, companies are telling us to go after smart, intelligent people and retool them," says John G. Owens, '04, director of McCann. "They're saying, let's take a lawyer and teach her how to be a trader on a trading floor, or take a CPA and train him to be a research analyst at an investment bank."

Although Owens has had a fair amount of success with this outside-the-box approach, he admits this is not a permanent solution to the problem of an under-trained and undermanned Generation X labor force. "Only so much of that can be done before every industry will begin running into brain drain," he says, adding that jobs in government, teaching, and health care could eventually suffer the most.

The demand for higher training in math and science actually extends to the blue-collar tier as well. According to Eastman's Ferguson, managing the kinds of technical skills needed today on the manufacturing line requires more complex skills than in the past—similar to what you would get in two years of college or an associate's degree from a community college. Gone are the days when a student could walk out of high school with a diploma and waltz right into a job at the local factory. This is a problem, he adds, only in their North American facilities, and one that hasn't arisen in Europe, Asia, or South America.

DANIEL DUBOIS

Headquartered in Kingsport, Tennessee, Eastman Chemical is now reaching into the region's high schools and technical and community colleges to help them design their curricula so that students will have the technical understanding and skills to be successful for the long term. Even after they are hired, Eastman offers hourly employees foundational training on site at their facilities. Whenever a process is added or changed in an assigned area, the employee receives updated, job-specific training.

"After we hatch them out of technical college, it still takes three or four years to get them 'manufacturing ready,'" says Ferguson.

Once they have the necessary manufacturing skills, Eastman looks for the best of these employees to place on a management career path, teaching them the required "soft skills," such as leadership, evaluation, and administration. Many stay in that path for three to five years before actually assuming a managerial role, and about half wash out in process, unable to develop the talents needed to supervise others. Those that make it, however, not only pass on their technical skills to others, but they become vital for preserving the corporation's history and culture.

While many boomers remain youthful and healthy and have no desire to retire, others simply discover they need an income stream beyond their 401Ks. Even so, they may want to slow down some. Top-level executives may still want to contribute, but have no desire to be in charge. To accommodate them, more and more companies are implementing creative solutions to keep these valuable workers in the pipeline. These options include phased retirement schemes, flexible work hours, and consulting opportunities that allow them to work on finite projects.

> The alarm bells are just beginning to sound for employers, warning of the dearth of comparable younger workers coming along behind the baby boomers. Some experts predict a future shortage of up to 10 million workers.

John Owens regularly deals with this type of client. He recently consulted with a gentleman who'd been the president of several major companies and was ready to retire away from his full-time job, but wasn't ready to retire permanently. "He'd like to serve on the boards of four or five corporations. That way he can still be active, can help companies make smart management decisions, and can advise them about priorities based on his experiences," Owens explains.

Tami Fassinger, head of the Owen School Executive MBA program, sees a new crop of alumni emerging, who are experts in an area, but are moving away from day-to-day oversight of a business in order to set themselves up as problem-solvers. "They'll accept a contract to come in and identify a problem, but will clearly define when their job will be terminated," she says.

She adds that as people move up in their careers, rather than stagnating, they can continue to grow professionally if given the education and skill mastery that allows them to evolve with the times. The Owen School offers non-degree executive development programs to facilitate that growth, whether it's in networking, leadership, management, or cross-functional training. In addition, Fassinger helps businesses customize their training and curricula to meet company-specific needs. (See related article p. 72)

For Joe Rolwing, attending free-to-the-public courses through the Owen Entrepreneuring Center has rejuvenated his career, and allowed him to network with local business leaders. "I truly believe in the lifetime education," he says.

Yet, despite sporadic steps in the right direction, the platform is still burning and a crisis lurks unless U. S. businesses undergo some revolutionary changes. The demographic upheaval reverberates throughout every aspect of industry. Whittlinger is a member of the national Womens Presidents Organization, and one of the hottest topics among members, who typically range in age from 40s to 60s, is how to care for aging parents.

"We talk about baby boomers living longer, but older people are also living longer," Whittlinger says. "It's a perfect example of the dilemma. Here's a woman who loves her career and is at the top of her game professionally, but she has this other responsibility tugging at her time. If companies give her the opportunity to work three or four days a week, for instance, if they can accommodate this issue of parental care, then they can retain that employee's expertise."

Oftentimes organizations that were born out of ingenuity are now mired in rigid structure and deadly meetings. To keep the spark alive, some firms like 3M, Google, and Genetech, allow employees a dose of protected discretionary time for creative tinkering. This keeps their scientists investing in innovation beyond typical market-driven research.

Certain economists are proposing even more radical ideas. "We are still training people for the Industrial Age," says Lynskey. "Some of my colleagues think we need to throw out the notion of a hierarchy in the firm, because it stifles innovation. Instead it might be more efficient to structure a company as an aggregator that serves as a hub for a network of smaller companies—located all over the world, perhaps—performing specialized tasks that ultimately come back together into a finished product."

Included in that network, he adds, is a workforce comprised of all different status and types of workers—part-time, full-time, flex-time, young, middle-aged, senior citizens.

Some think that this business model would ensure a rotating supply of replacement employees as people move in and out of status levels, depending upon their needs at different points in their lives. In addition, such a configuration just might provide the incentive for workers to remain committed to their jobs, drawn to the thrill and fulfillment that comes from holding steady on a burning platform. VB

DAVE CUTLER

Executive Compensation $aga

By LISA WADDLE

What Will it Take to Rein in Out-of-Control Pay?

For years, grumbling over runaway executive pay has been a rite of spring at companies' annual meetings.

The outrage appears to have little effect, however, as in the last 15 years executive pay has soared. In 1990, the average U.S. company paid its CEO about 100 times what its average worker earned. In 2004 that gap had risen to 431.

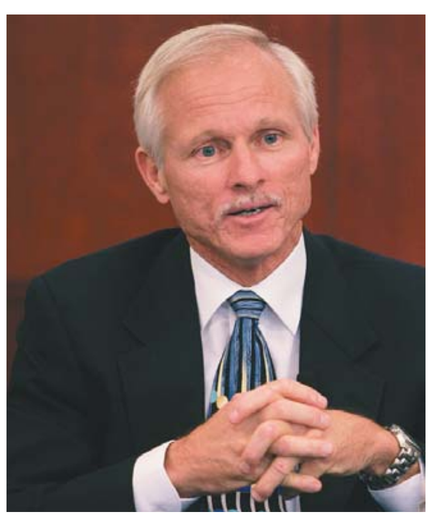
Yet the Securities and Exchange Commission only this January proposed changes in the way executive pay is reported. And General Motors, which lost $8.6 billion in 2005 and announced plans to cut 30,000 jobs, recently revealed that its top executives would take a pay cut.

Are we seeing signs of a sea change in the way executives are paid in this country?

Some feel the disclosure rules will have little effect on an executive pay system that mainly functions well, except for a few "bad apples" who stoke the ire. Yet others say the problem is with the apple barrel: The corporate governance structure itself is flawed, which has led to a disconnect between an executive's pay and performance.

"It is certainly true that excessive executive compensation is currently perceived as such a problem, and that, if the markets, courts, and decision makers themselves cannot control the growth in executive compensation, the rule makers will step in," said William B. Chandler, chancellor of the Delaware Court of Chancery, in an address last fall at Vanderbilt's Directors College.

Judge Chandler decided the high-profile Walt Disney case last year, ruling that the company's board of directors was not out of line in awarding Michael Ovitz a severance package of $140 million for a 15-month tenure. Yet Chandler noted his ruling offered "no easy schematic which you can follow to arrive at an amount of executive compensation that is both legally defensible and in the best interests of the shareholders."



Judge William Chandler

DANIEL DUBOIS

Out-of-Control Pay

If indignation over high CEO salaries has been a constant for more than a decade, why is the government taking action only now? What transformed the issue from a grouse session to a reform movement?

One reason may be that the amount of money at stake is now too big to ignore. The median total direct compensation (base salary, annual bonus, and the present value of long-term incentives) for CEOs was $7 million in 2004, according to Mercer Human Resource Consulting. And that's just the median—the handful of examples at the top show that those millions really add up: Terry Semel, CEO of Yahoo, made $230.6 million in 2004; Barry Diller, head of IAC, made $156.2 million in 2003; William McGuire, CEO of UnitedHealth Group, brought home $124.8 million in total compensation in 2004.

Put in context, CEO salaries look even more disproportionate. Top executive pay has risen faster than inflation, faster than the average worker's salary, faster than earnings, and faster than stock market returns. For the average worker struggling for a pay raise to match inflation, it's an unfathomable amount to consider.

A second reason is the seeming disconnect in recent years between executive pay and performance. During the '90s bull market, top pay for CEOs was defended by companies because they enjoyed high earnings and rocketing stock values. In recent years, however, public attention has been drawn to boards rewarding CEOs for mediocre or worse performance.

At Blockbuster Inc., for example, CEO John Antioco's pay increased 541 percent last year, to $56.8 million, despite a fall of nearly 50 percent in the company's operating income. One of the most publicized cases involved Michael Eisner, former Walt Disney Company CEO, who was paid $10 million in salary and bonuses for his final year at the entertainment giant, despite lackluster company performance.

Add to these examples the reports of executive scandals at Enron and Tyco, and it's not surprising that the public views executive pay with distrust and incomprehension.

> What appears to be a reasonable salary for a CEO can be inflated to unreasonable proportions when stock options and retirement perks are included. Often, the full extent of the deals that boards broker with top executives—such as annual retirement pay in the millions after the CEO has left—only become known after the fact, further fueling the public's mistrust.

Perception vs. Reality?

Unlike the paycheck most workers take home, executive compensation packages are complex. As a result, the public often doesn't get a complete picture. Some commentators argue that the past decade of outrage is based on a perception formed from exaggerated headlines, not the reality of the CEO marketplace.

"There are many who believe that concerns about executive pay have been exaggerated," writes Jesse Fried, author along with Lucian Bebchuk of *Pay Without Performance: The Unfulfilled Promise of Executive Compensation.* "Some hold the 'rotten apples' view that flawed compensation arrangements have been limited to a small number of firms."

Not surprisingly, this "perception problem" is one embraced by most CEOs. In a survey conducted by *Chief Executive Magazine*, 65 percent of CEOs said that compared to other high paying/high performing positions (such as actors and sports stars) issues of executive compensation are not presented fairly to the public.

Complicating matters, executive compensation is more than just salary. Today, base salary ranges from 10 percent to 40 percent of a typical executive's overall compensation, according to the Society for Human Resources Management. The rest is made up of perks—stock, bonuses, even luxury housing allowances—that rarely figure into the average worker's compensation.

As a result, what appears a reasonable salary for a CEO can be inflated to unreasonable proportions when stock options and retirement perks are included. Often, the full extent of the deals that boards broker with top executives—such as annual retirement pay in the millions after the CEO has left—only become known after the fact, further fueling the public's mistrust.

"I do think shareholders believe they're being hoodwinked," says Randall Thomas, co-director of Vanderbilt University's Law and Business Program and the John S. Beasley II Professor of Law and Business. "There shouldn't be stealth compensation."

In his book *The Battle for the Soul of Capitalism,* John Bogle points to the lavish perks enjoyed by high profile CEOs—such as GM's Jack Welch—as further eroding shareholder trust in reasonable compensation.

DAVE CUTLER

"The staggering sums paid to CEOs are understated," wrote Bogle, a Distinguished Speaker at the Owen School last year. "The figures include only what is publicly disclosed as CEO compensation. The reality is considerably higher."

Yet others argue that many CEOs are probably underpaid, given the demands and risks of the job. Although the most extravagantly paid executives get the lion's share of the media attention, the majority labor at jobs requiring unique time and skill demands. In the period that executive pay has soared, so has the stock market and the U.S. economy.

"American companies have been successful, and executives deserve a great deal of credit," says author Bebchuk.

Problems With Stock Options

What most observers of executive compensation do agree on is the havoc wrought by the popular role of stock options in an executive's pay package. For many start-ups in the 1990s, stock options became a way to attract executive talent without having a high CEO salary devour earnings. When some high-tech ventures hit it big, executives became instant millionaires with no impact on the company's bottom line. Additionally, options provide both tax deductions and cash infusions as they're exercised—a win-win for the company and the executive.

Although an easy sell for directors looking to pad an executive's compensation package, stock options don't always work as planned. For one thing, they are little more than a lottery ticket—great when a company's stock takes off, but nearly worthless when their exercise price exceeds the stock price.

In the past decade, stock options added to the perception that not all of a CEO's pay was being revealed, because

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DOUG PARKER, '86, CEO U.S. AIRWAYS, was mentioned in the May 1 issue of *Business Week* as one of the CEOs who took home less than they could. In the article titled, "No Hair Shirts But Still….," it mentioned that Parker declined a $770,000 bonus based on "some expectation of shared sacrifice" with workers.

options had to be accounted for only in financial statement footnotes.

"Stock option plans became popular because they allowed managers to push compensation out of the financial statements," says Craig Lewis, professor of management at Owen. "It took awhile for shareholders to realize the true cost."

An accounting standard change that took effect this year requires public companies to record a charge on earnings statements to reflect the cost of employee stock-option grants. Proponents of stock option expensing say the new rule doesn't change the real cost of options to companies, but will make those costs more transparent to investors.

It's also hoped the change will help level the compensation playing field. In the past, the advantages to using stock options made it hard for boards to consider other compensation methods, even though its been widely acknowledged that stock options are an ineffective way of linking pay and performance.

"Stock options rewarded executives for raising the price of their company's stock, rather than for increasing their company's intrinsic value," wrote Bogle. "The stated rationale for fixed-price stock options was that they link the interests of management with the interests of stock holders. This oft-repeated and widely accepted bromide turns out to be false."

Missing Link Between Pay and Performance

Stock options showed investors that stock price should not be the sole measure of executive performance. But there is little agreement over the best way to determine how well a CEO is performing, or even how much pay is too much.

"There's more art than science to compensation," says Neta Moye, assistant professor of management at Owen. "The market for CEOs is significantly smaller than for other jobs. There have always been arguments about the gaps between executive and employee pay, but it's the lack of this link between performance and pay that is most troubling."

Tying executive pay to stock price ended up producing "undeserving executive celebrities and overlooked those who incrementally and consistently added real value to their corporations," wrote Bogle.

Pay-for-performance appears to be a simple idea: When the company does well, the executive is rewarded. However, "doing well" differs considerably

William Donaldson

DANIEL DUBOIS

when you compare the impact of a CEO at a blue-chip company versus a budding, inventive firm, according to Lewis.

"If management can fundamentally change and alter the performance of a company, it makes sense to have their pay tied to those decisions," he says. "But when you look at the CEO of a place like GM, in terms of fundamental changes to the business model, there's not a lot they can do. They're more professional managers, compared to younger companies, where the CEOs are making decisions that make or destroy the value of the company."

The private research group The Conference Board has recognized problems with pay-for-performance of top executives and issued a special report that proposed a series of best practices for executive compensation.

"Executive compensation has become too delinked from long-term performance goals in many corporations. There is an imbalance between unprecedented levels of executive compensation, with little apparent financial downside risk or relationship of this compensation to long-term company performance," according to the report.

Complicating the matter is the fact that there isn't a template to measure executive performance or level of pay across industries and types of firms, according to Thomas.

"As an institutional investor, I need a rule of thumb to figure out if my executives are being overpaid or not," Thomas says. "I'm looking for some formula, like they should be paid X percent of profits or something like that. But it's much more complex from a systemic point of view, so it's not surprising institutions haven't been able to do that."

Directors' Role and Culpability

Who decides how much to pay a top executive? In the majority of public companies, boards of directors determine the pay of top executives. As the elected representatives of the owners, directors are the ultimate governing body of a corporation, and many times create compensation committees devoted to this issue.

Yet the basic assumption that pay negotiations involve boards of directors working to get the best deal for shareholders, and executives trying to get the best deal for themselves is not accurate, according to Bebchuk. He writes that directors' motives are in fact compromised by "the desire to be reelected to the board, and by the possibility of being rewarded by the officers of the company. It's hard psychologically for a director to change hats very quickly—one moment deferring to the CEO as the leader, the next setting pay at arm's length and making decisions that the CEO doesn't like."

Adding to this potential conflict is the fact that at many companies, the CEO serves as chairman of the board.

"Boards are supposed to govern and keep things in check, but when the board reports to the chairman, who is also the CEO, that raises questions," says Moye. "Shareholders have trusted what's been going on, but now they want more oversight."

Although not at the stratospheric level of CEO pay, director pay has also been climbing at a rate significantly higher than inflation and becoming somewhat of an issue as well. Last year, the median remuneration for a director at a Fortune 500 company was $157,002, up 12 percent from 2004.

"Issues regarding director independence and contribution will continue to be discussed and analyzed, especially when it pertains to company performance and the linkage to executive pay," according to the *Journal of Compensation and Benefits.*

The Conference Board says there is a need for an intensifying of corporate boards' oversight role.

"To ensure maximum board effectiveness, boards need to shift their entire emphasis," says Carolyn Kay Brancato, head of the Director's Institute at The Conference Board. "They can no longer be just advisors who wait for management to come to them. Their new role requires that they provide active oversight of the company's business to minimize corporate risk and promote creation of shareholder value."

Can Consultants Help?

Looking for help in navigating these murky waters, boards of directors have turned to compensation consultants, hired to determine what level of pay is enough to attract top talent, yet not so much that shareholders get up in arms.

"At its heart, this issue is about incentivizing executives to work hard and do the right things for those who own the company," Thomas says. "The hard question is what is the appropriate benchmark that corporate boards ought to use in determining how to pay their executives? This whole issue of external benchmarking has been a big battlefield."

External consultants offer expertise in what other companies pay their executives, as well as insight into the different elements—salary, bonus, stock options—composing an employment offer. Yet critics contend this methodology has spurred the upward growth of executive pay, because boards are more likely to pick benchmarks of high performing companies.

An accounting standard change that took effect this year requires public companies to record a charge on earnings statements to reflect the cost of employee stock option grants. Proponents of stock option expensing say the new rule doesn't change the real cost of options to companies but will make those costs more transparent to investors.

"Boards considering pay for executives tend to consult an industry average," says Chandler. "Obviously, they believe that their choice for CEO is the best available, and certainly better than the average executive. Therefore, it is reasonable, figures our hypothetical board, to pay their CEO at above the average rate of compensation. This leads to a round robin of pay increases, a one-way ratchet that continuously raises CEO compensation. It might be considered akin to the Lake Wobegon effect, Garrison Keillor's fictional village where every child is above average."

DANIEL DUBOIS

Blair Jones

Although hiring a consultant can appear to provide an objective third-party perspective to the pay negotiation, that is not always the case, Chandler adds.

"While using such experts can eliminate the appearance of self-interest or cronyism, they too have incentives that work to raise CEO salaries," he says. "It is not, perhaps, in a consultant's perceived best interest to recommend to the company that has hired him that their CEO merits less-than-average compensation."

Warren Buffet minced few words in his chairman's letter to Berkshire Hathaway in 2003: "Compensation committees too often have been tail-wagging puppy dogs meekly following recommendations by consultants, a breed not known for allegiance to the faceless shareholders who pay their fees. This costly charade should cease."

Another perspective on controlling executive pay is a return to the fixed

Continued on page 68

"CLASS ACTS"

Jackie Shrago '75 *In Discovery Mode* | Sara Gates Whisenant '96 *A Catalyst for Change* | Sam Graber '01 *Learning Through Performing*

'75

IN DISCOVERY MODE

Jackie Shrago, '75, is the original go-go girl. Ever interested in new ideas and technologies and enterprises, and undaunted by the occasional no, Shrago is happiest going where no gal or guy has gone before.

She tinkered with her first computer in the early '70s after receiving a math degree from what was then George Peabody College for Teachers. Wanting to be a computer programmer, but rejected by companies for fear that a young, married woman would soon quit to start a family, she rallied by working at launching an HMO. (Interestingly, years later, her computer projects would garner recognition from the Smithsonian Computer World Awards.)

In the meantime, in 1973, she returned to Vanderbilt to earn her MBA and parlayed a student software development project into a multi-million dollar telecommunications company. Co-founded with two other Owen people, what became known as Telco Research, ultimately serving half the Fortune 100 companies, sold over a decade later to NYNEX. "We began it before the field of telecommunications even had a name," Shrago recalls. "Back then, there was only AT&T and a few start-up companies."

After the sale of Telco, Shrago set off once again in a new direction and became the treasurer and comptroller for Al Gore's 1988 campaign and afterwards its Tennessee state director. "Politics was fun for awhile, but not a career," she says.

Today, Shrago is CEO of ThinkLink Learning, a Nashville-based educational testing company co-owned with Vanderbilt University.

The 40-employee firm, offering predictive assessment tests to schools

Jackie Shrago

wanting to improve their scores on state-mandated, "No Child Left Behind Act" standardized tests, has recently been acquired by Discovery Education, and is part of the Discovery Channel family. A believer in the utility of the common bond shared by Vanderbilt graduates, Shrago currently serves on the alumni board and as an alumni council rep. "Each of us has gifts to offer," she says. For Shrago, it's as a go-getter innovator.

— Carol Wissmann

Please Note: Class Notes appear only in the printed version of this publication.

'96

A CATALYST FOR CHANGE

WHAT MAY BE RISKY BUSINESS for some is simply how Sara Gates Whisenant, '96,defines her world.

"My career has always been in emerging markets—out there on the edge—doing the newest thing," she says. "I'm very comfortable assuming risk and taking on the challenge of seeing through what I've not done before."

After graduating from Owen, Whisenant moved to the Northeast and worked for a few years in mergers and acquisitions for Deloitte Consulting. Recruited by Microsoft, she then moved to Seattle to be director of business development and product strategy in their emerging markets division. But in 2000, when she had the opportunity to join a team starting a security software company, Whisenant chose "the road less traveled."

The path brought her full circle, back to her fourth-generation, Austin, Texas, roots. And though she's happy to be home, she realizes that, "In each instance, the comfortable, safe decision would have been to stay right where I was because things were going well. But, whether I mean to or not, I bring change, and I drive that change in organizations and companies."


Sara Gates Whisenant

Today, Whisenant is vice president of software, Sun Microsystems, Inc., which bought the small start-up in 2003. The firm's security software aids large companies in preventing identity theft and complying with such regulations as Sarbanes-Oxley Act.

Forever forward-moving, Whisenant helps set Sun Microsystem's direction and communicates that message internally to company leaders, and externally to analysts, customers, and the press.

Whisenant brought that same momentum to her past position as president of the Owen Alumni Board. "As a board, we needed a fresh approach—to question some of the old ways of doing things, and to get more alums involved, so we could adapt to the latest economy and to what Jim Bradford, the new dean, needed from us."

Grateful for her Vanderbilt education, Whisenant credits Owen with bringing a "business-based discernment, judgment, and decision-making" foundation to her natural inclination for risk-taking and change.

— CAROL WISSMANN

"CLASS ACTS"

'01

LEARNING THROUGH PERFORMING

IF THEY HANG A STAR ON SAM GRABER'S DRESSING ROOM DOOR, it won't come from his years of performing as a professional musician in Washington,D.C., but from his new venture as a producer of Broadway-caliber shows for kids.


Sam Graber

"Entertainment was empty for me," says Graber. "It had no long-term impact."

So when, as an executive board member of The American Alliance for Theatre and Education, he became aware of the need for high-quality, integrated performing arts materials in elementary schools, Graber saw the opportunity for a business venture with a lasting purpose.

Today, Graber, '01, is president of Accompany Publishing, a Minneapolis-based direct mail order publisher of standards-based productions for grades K-8. All shows integrate with core curriculums nationwide. Titles such as "Save the Plants!" and "Fire of Vesuvius" cover multiple disciplines and have components in history, earth sciences, language arts, and math. And while the farce, "This is Only a Test," may poke fun, all packages are designed to bring improvements in students' performance on the state standardized tests that are tied to federal funding.

While the outcome may sound all business, the means is pure fun. The tunes are contemporary pop music recorded by some of the country's top studio musicians. Scripts come from Hollywood screenwriters and Broadway playwrights. Sets and scenes are created by professionals from children's theater. And a couple of Minnesota Teachers of the Year helped integrate material from the core studies.

Accompany began national marketing of their catalog in 2005, and saw schools across the country producing shows. "I think we're on track for most start-ups," Graber says. "Profitability should come in our third year"—though he admits it's an endeavor that would have most investors vacating the market "in the first five minutes."

But for Graber, it's been a purpose-driven, entrepreneurial dream. "It's the greatest feeling to go into a school transformed and learning through the magic of theater," he says.

— CAROL WISSMANN

EXECUTIVE COMPENSATION

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salary, instead of focusing on the extras making up a CEO pay package.

"The role of a fixed salary as a way of providing incentives is overlooked," Lewis says. "An important part of compensation is the annual raise, and if you have a good year, you can be awarded a better raise. The alternative is if you have a bad year, there's the threat of losing your job and taking a step backwards in terms of compensation and prestige. That ought to be a pretty big incentive to perform well."

Any comprehensive pay for performance program must go beyond numbers to more objective measurements of success, says William Donaldson, who up until June 2005 was chairman of the Securities and Exchange Commission. He spoke at Vanderbilt's Directors College last fall.

"The measurements shouldn't just be for traditional financial goals, such as return on investment," Donaldson says. "Criteria should be equally dependent on qualitative judgments, such as quality of product, research, and personnel policy. All of that should be side by side with the financial, as that has to do with good management."

Going Forward

The complexity of the executive compensation issue and number of players involved can seem daunting, but there are hopeful signs. In January, the SEC proposed the most extensive overhaul since 1992 of the way companies disclose compensation of their senior executives and directors. If approved, the new rules would require a single figure that encompasses all measurable compensation for the current year, as well as require companies to explain the rationale for executive compensation.

Yet experts note the SEC is not taking steps to cap skyrocketing pay, and some fear disclosure could actually exacerbate the runaway pay trend.

Disclosure will address a major complaint of shareholders," Thomas says. "Whether it will lead to a reduction or increase of executive pay is the question. In other countries, there seems to be a jump in pay after new disclosure rules, because suddenly everyone can tell what everyone else is making."

Despite this risk, few argue that disclosure is a backward step.

"Nobody knows what will happen, whether there will be a competitive spiral upwards," says Donaldson. "But as a first step, disclosure will make compensation committees very careful about what they're getting into. The fresh air that comes from disclosure allows people to make up their own minds."

Even if there is an initial bump up in salaries, Lewis is confident that market forces will eventually cause a leveling off.

"If the market really believes CEO pay is excessive, CEO pay will come down," he says. "It may take a while, but if everyone has the same information, the levels will move toward a more reasonable level."

Others, like Chandler, believe directors and shareholders need to step up and take action, rather than sitting back and waiting for others to act.

"It remains to be seen whether the culture and history of director responsibility, which has made the American corporation the benchmark for the world, can rise to the occasion and treat executive salaries as the cost that they are, rather than as a status symbol or corporate badge of honor, and find a way to limit the perception that cronyism has slipped the reins on salaries before Congress steps in to do it for them," Chandler said.

There's no question that shareholders are increasingly concerned about matters. They have the power to voice disapproval by refusing to re-elect board members and by removing their investment.

"I think ultimately there will be shareholder pressure to reduce compensation, and that will make a difference," says Donaldson."

Among the solutions suggested by Bebchuk are urging firms to tie pay tightly to managers' own performance and use equity-based schemes that filter out windfalls.

"We would like to see pay arrangements designed to serve shareholders' interests, not managers' interests," says Bebchuk.

Blair Jones is a corporate compensation consultant who spoke at Vanderbilt's Directors College and has published several articles proposing solutions to the executive pay problem. Her emphasis is on boards finding an individual solution that fits their circumstances, rather than imitating the pay packages in effect at other firms.

"Companies that have simply followed the herd regarding new long-term incentive designs rather than looking internally at what the different company, shareholders, and executive factors might suggest have missed an opportunity," Jones wrote. "Determining the right combination of compensation vehicles and the appropriate levels of pay should be an 'inside out' exercise."

Owen's Moye is optimistic that recent changes in the executive pay system are positive moves.

"Both expensing and the disclosure rules are steps in the right direction," she says. "I think we'll wait and see if they're enough, but I can't see how these changes would be bad. I think things are going in a great direction." VB

Owen Graduate School of Management Alumni Council

ALUMNI COUNCIL FOR MBA*

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1986 David Hornsby
1988 Jeffrey King Davis
1989 Steven Jongsup Shin
1990 Robert E. Grohovsky
1994 Janet Hall Koether
1995 David Livingston Corts, Jr.
1995 Robert Bruce Frutchey
1996 David Joseph Wathen
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2000 Stephanie Ryan Ditenhafer
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2002 Kristen and Thomas McDaniel
2003 Lauren Frazier Rowe
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2005 Maren Winters Scoggins

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1985 Rita Ann Bennett
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1994 J. Burts Bryant
1995 Nelson Andrews III
1996 Curtis Harold Finn
1999 Kimberly Windrow
2000 David Lee Dean
2001 John Hassan Dayani, Jr
2003 Jennifer Gower
2004 Nancy Louise Bach
2005 Margaret O. Dolan

*The Alumni Council is a group of alumni volunteers who are helping to foster meaningful class identity and connect their classmates back to Owen, encourage alumni participation in Owen activities, and promote philanthropic support.

Not all classes have identified Alumni Council Representatives. Please contact Marshall Turnbull (marshall.turnbull@vanderbilt.edu or 615.322.9997) for more information.

WEEKEND WARRIORS

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strategic decisions to ensure they graduate with a thoroughly transformed way of thinking. In effect, EMBAs graduate with the ability to operate with the other executives' perspectives, not just their own.

But one of the best aspects of the program is our Strategy and Strategy Projects courses taught by David Scheffman and David Furse. The courses have been so successful that the EMBA degree has been named third in the world in strategy by *Business Week*.

The object is for students to take everything they have learned in the EMBA program and apply it to a five-year strategic plan for a live client. Second-year student teams each pick a client. They then apply knowledge gained in all other courses, such as Corporate Valuation, managing the Global Enterprise, and others, to the client project. Students have had a wide range of client companies—from Airbus to start-ups. The course is the last hurdle for them before graduation, so Executive MBAs have a lot on the line. After seeing the EMBA students' presentations, clients fill out an evaluation form with comments ranging from 1 (I have spent a more productive two hours in the dentist chair) to 10 (exemplary). Needless to say the client comments seem to always fall into the top of that scale. Not only do clients benefit from this exercise, but so do the EMBA students who take these strategic perspectives back to their own companies. They graduate with a new language, the language of executives who can quickly size up business situations and new opportunities.

So if any of this strikes a chord with any executives or managers you know, encourage them to check out our offerings (www.owen.vanderbilt.edu), consider returning to school, and give their own kids something else to talk about. VB

INSIDE BUSINESS

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function as a rival regime of legal reform, one that wields the power to replace the legal rights of affected persons with a new set of rights spelled out in some manner of settlement agreement. Settlements, not litigation, are the end-game to which mass tort litigation is directed.

The most ambitious effort to replace mass tort litigation with a private compensation system came in the mid-1990s, when several major defendants in the asbestos litigation sought to use a class action settlement to make binding on future claimants a compensation grid. In 1997, in the landmark case of *Amchem Products, Inc.* v. *Windsor,* the Supreme Court of the United States overturned these efforts, finding them inconsistent with the rule of civil procedure on class actions. The period since *Amchem* has witnessed a series of halting, tentative efforts to find some way to bring peace to various areas of mass tort litigation. These efforts have ranged from the use of private contracts with plaintiffs' law firms to renewed interest in mandatory class action settlements to the rise of "pre-packaged" reorganization plans in bankruptcy.

I believe we should stop thinking about mass torts primarily as a problem of litigation and start thinking about them as they actually play out in practice: as occasions for shifting from tort litigation to a form of privatized, administrative system for the compensation of claimants. If we start thinking about mass tort litigation as the prelude to settlement, we would begin to change our vocabulary for discussion of the problem. For example, we would start thinking about representation not so much in terms of lawyer-client relationships but in terms of the kinds of representation that go on in government. The solution in this area is not for the government to become just another mass tort plaintiff but, conversely, for the law to think about the proper representation of mass tort plaintiffs as a form of governance.

There is a genuine need to arrive at a balanced, dispassionate assessment of how to improve the law of mass torts, one that stands in contrast to recent books that touch upon aspects of mass tort litigation largely as the vehicle for one-sided lawyer-bashing. To arrive at a realistic solution, we must reach across the usual dividing lines on legal subjects. In particular, we must move beyond the traditional focus on courts and judicial decisions to the under-the-radar world of mass tort litigators. Real lawyers in the real world are both heroes and villains here, and the ways in which they interact, clash, and sometimes collude with one another offer valuable insights. In treating mass tort litigation as a problem of governance, we can build much-needed bridges between the study of litigation by legal scholars and studies of government and the privatization of governmental functions by political scientists and public policy analysts.

RICHARD NAGAREDA, *professor of law and director of the Cecil B. Branstetter Litigation & Dispute Resolution Program at Vanderbilt Law School, is writing the first major academic book to consider the mass tort problem as a whole since the Supreme Court's decision in* Amchem. *"Several excellent books consider particular areas of mass tort litigation," Nagareda says. "Mine will take a bird's-eye view of the subject in an effort to find broader lessons about the handling of these kinds of disputes generally." His book, entitled* Mass Torts in a World of Settlement*, will be published in early 2007 by the University of Chicago Press. This article first appeared in the* Vanderbilt Lawyer Magazine.

FIVE RINGS OF HELL

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tum the IOC may have liked (Cities are not shoving and pushing in line for the Winter Games.). The spiraling prohibitive cost and terrorist threats, combined with disgruntled viewers because of doping puts in immediate peril the integrity—a core value to the "product." One thing is for sure: Cheaper, Cleaner, Safer may be the Games' motto for the 21st century.

KRT

For the rest of us common mortals, viewers, or employees of any HCOGOC around the world, the Olympic Games will always be a big, fun festival, THE YEAR OF THE OLYMPICS in our mind.

For everybody directly involved, it is a unique experience challenging mind and body, with lessons learned on many levels: personal, intra-personal, professional, or managerial. Despite the long grueling journey in and around the Olympic circles (pun intended), what counts in the end is the bonding of all people of all backgrounds and countries that happens before and during the events. In that sense, the Games as an institution has been vastly successful. Every single time they succeed in reminding us that we may be humans of different nations and races, but—in danger of sounding trite—as humans there is more that binds us than separates us.

As for the competing athletes, those few moments of glory for some on the podium may ultimately justify to all involved our common trip through the Rings of Hell. **VB**

SURVIVING TECH TSUNAMI

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Tides Turn: Shifting Sands

Fresh with funding, we set out to fulfill promise of our business. We hired some of the leading people out of the industry, the star liquor buyer from TGI Fridays, and 10 key executives from world spirits leader Diageo. Our business model of taking a small transaction fee on every distributor order along with selling marketing (advertising) to brand owners, and charging a small subscription fee to retailers had something of a chicken and egg dilemma to it. Distributors would participate, but only if enough retailers actually wanted the service. Retailers wanted it, but would only use it if we had all or most of the brands in the market, and suppliers with huge budgets would spend against the channel, but not until a significant number of retailers were actively using the service. Even against these forces, we were successful at getting distributors in 37 states to participate. We had numerous retailers including TGI Fridays, UNO, Marriott, Hyatt, and many independents initially sign up and participate in our pilot launches. With the capital in place, we thought we had the time to develop the business over the long haul.

As the financial markets continued to fall, the financial community became increasingly panicked. A memo went out at one of our largest investors giving the blanket directive to look throughout their portfolio of venture deals, identify anyone with cash, and then "go out and get the cash back." eSkye was one of the few dot-com start-ups that had not blown their cash nine months after raising it. As a result, we got a lot of attention by the VCs as they attempted to recoup their investments.

Our view was that they had invested a minority share in a private company. They had not lent us the money. They had three out of 10 board seats. We were just getting started with our business, and just because it was slow going and the financial markets were bad, this did not warrant us ending our pursuit.

The result of these diametrically opposed views was a nearly year-long battle between our "long term" investors and management, with the board stuck in the middle. The board hired Nashville native Jim Neal, a Vanderbilt Law School graduate, to represent them. The VCs had aggressive New York counsel.

It seemed like the longest year of my life. There was incredible pressure to shut the business down and distribute the cash. I was still a director and EVP of NWS and could have gone back there or done something else. And yet we persisted. When an independent investment bank recommended liquidating, we thought it was all over. In spite of this, we had a burning desire and sense that if we just stuck it out and survived, we could make a great and lasting business.

In the midst of this, we had a VC negotiation scheduled for September 11, 2001, in New York City. A couple of days before the meeting, it was rescheduled for Chicago. Thus we found ourselves at O'Hare airport the morning of 9/11 watching the horrifying events unfold on CNN. After that, the fight seemed to leave the VCs. We convinced them that we were committed to remain and fight to continue the business indefinitely.

By the end of the year we mutually agreed on a buyout, and by February 2002 had purchased the shares of the dissident VCs and any shareholders desiring to exit. The terms of the settlement are sealed. We had weathered the onslaught of the financial community and were free to pursue our business.

2001-2003 were tough times in the software industry after the boom years of the 1990s and 2000. Management and the board spent most of 2001 in the VC fight and not building the business. We had to abandon our B2B exchange for lack of revenue generation. Very few major purchases were being made by industry in general as we repositioned the company to provide software and services to the beverage industry using our original software as a core offering. To survive these slow and difficult times, we cut our staff down from a high of 110 to a low of fewer than 10 employees. We had to be flexible with our evolving business model.

Epilogue

Between 1998 and 2000, more than $350 million of venture funding went into Internet start-ups in the beverage alcohol industry. Of the many high profile companies started then, eSkye is the only one left standing.

Today, eSkye is the leading provider of software and services to the global beverage alcohol industry. We have five of the top 20 wineries in the world and more than 200 wineries using our solutions to make or sell their wine. More than 150 distributors are connected to our Web-based network, and eSkye has numerous strategic consulting engagements with industry players. Customers include Constellation Brands, Diageo, Fortune Brands, Foster's, Pernod Ricard, and some of the top independent wineries in the world. eSkye is growing organically and actively pursuing our acquisition strategy. We have grown our revenue 685 percent over the past three years.

We are in reach of our financial goals, and have remained committed to our founding principles of integrity and hard work. While the eSkye story is still being written, I can confidently say, in spite of tough times and against all odds, perseverance and flexibility prevailed. **VB**

Weekend Warriors

Working Weekends Yields Big Returns for Executive MBAs.

By TAMI FASSINGER

PERHAPS I HAVE IRREVERENT KIDS, BUT I get hit with tough questions when I leave my job at the end of the day at Vanderbilt Executive Programs and pick up my girls at their school…. "Mom, why are 'old' people like you still in business school?"

After licking my wounds (I'm 43 and don't think that is old), I ponder the real issue at the heart of their question: We never outgrow the need for education, and that's why exec ed is critical to so many people and to their evolving careers in business.

DANIEL DUBOIS

The big moment: Students present their final project to a live client. From left, seated, Kristi Allender, Antonio Nunez, Jamie Hare, and Chuck Kincade, president of Bonus Building Care; standing: Professor David Furse and Ed Miller.

Having career-coached, hired, and admitted MBAs, Executive MBAs, and seminar participants over many years, I see distinct roles that each of our business school products serve. 1) The MBA, where you quit your job to focus on school: Career switchers are most often interested in getting the MBA, so they can achieve a shift direction early on in their careers, capitalize on new technical skills and school organizations, and make career changes. MBA programs are ideal for someone building technical management competencies in the first five to eight years of their career.

2) The Executive MBA has an obvious advantage, since it is a weekend program and can serve people who don't want to quit their jobs or industries to return to school. But much more important, Executive MBA programs recognize that their ideal student is past the level where technical skills, which led to early career success, might continue to propel the next stages of mid-level or senior career. EMBA students are looking to build on—not break away from—their first decade of experience. At mid-career and senior levels, effective seasoned manager/executives need to be able to synthesize information from many people and departments, be able to lead and motivate so that others follow, and to influence across and up and down the organization.

When it comes down to it, there are times in many people's professional lives in which schooling may be important again, when the rate of learning and new challenge in a job trickles to a drip. Or, when a new challenge or assignment leaves even seasoned business leaders with their stomachs in knots. Or when the language you've used in the past to influence decision makers no longer sustains you in higher, executive circles.

If you have reached such a plateau and don't see a clear view with your current toolkit, there's good news: Through the Vanderbilt Executive MBA and Executive Development Institute, we have a full array of programs designed for working professionals and executives at every career stage. We offer short courses, certificate programs, and degree programs, with schedules that accommodate the need for different work challenges, differing peer groups, and prices to suit every budget.

Our strategic positioning with the Executive MBA is to continue to produce a premium brand—ranked #3 in strategy—by requiring substantial achievement in management experience, thorough degree requirements (60 credits) and strong incoming intellectual credentials including the GMAT. While incoming students have differing levels of experience and differing industry perspectives, the intellectual level of the class is at par, and the study groups formed are balanced, with each member contributing substantially to the learning of their peers. By keeping the curriculum at a full 60 credits, students get a 30,000 foot view across the business disciplines and spend the majority of year two on integration of material and

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TAMI FASSINGER *is associate dean of Executive Education.*

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