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Enron Chronicles

Investigating Enron

Life After Enron and Sarbanes-Oxley

(Sometimes History is Our Best Teacher)

BY GARY M. BROWN

When I accepted the position as special counsel (minority) to the U.S. Senate Governmental Affairs Committee (GAC) in the Enron investigation, I was excited despite not knowing exactly what was in store for me. GAC had launched a wide ranging investigation into the causes of the collapse of Enron, then the seventh largest corporation in America. Enron was the largest (until WorldCom) and remains the most complicated business failure in U.S. business history. Enron's collapse devastated thousands of its employees and investors. Its downfall was shocking due to its size, the apparent speed with which it happened, and because it appeared that it could be traced to widespread fraud at the company. The collapse and revelations that followed, coupled with other corporate scandals, triggered a crisis of confidence in U.S. capital markets that continues today.

Did Attitude Get Us Here?

Alan Greenspan, who coined the phrase "irrational exuberance" to describe the booming stock market of the '90s, when asked about corporate scandals that seemed to emerge from this period said, "The historical guardians of financial information were overwhelmed." The guardians he refers to are independent boards of directors and auditors, both of which were found by GAC and its Permanent Committee on Investigations (PSI) to have failed miserably with respect to Enron. GAC's investigation also addressed the roles of other guardians in the collapse, including

- credit rating agencies that continued to rate Enron as an investment grade credit until days before its bankruptcy;
- securities analysts that continued to recommend that the public buy the securities of various companies (including Enron) until just prior to their collapse;
- financial institutions that structured and executed transactions used by Enron to manipulate its financial results; and
- government agencies charged with oversight of Enron, such as the SEC, the CFTC, and the Federal Energy Regulatory Commission.

The Sarbanes-Oxley Act of 2002 addressed many of the failures of these "guardians." The Act focused on auditors through direct regulation, and on directors (indirectly) through audit committee independence and responsibility and conduct of officers over whom directors were supposed to exercise oversight.

"Did anyone do their job?" That was a question posed to me early in the investigation by Senator Susan Collins (R-Maine), now chair of GAC. I answered that from what we had seen at that point, "No." As we learned later, not only was there a failure of various parties to do their jobs, there was widespread failure to grasp basic legal principles and principles of right and wrong, coupled with what some would term "Wall Street arrogance."

Many times when confronted with troubling situations or facts, witnesses responded, "It was in accordance with GAAP," or "The lawyers approved it." Technical compliance was stressed over all else (although many times there was not even technical compliance). No one ever seemed to ask, "Does this work?" or "Is this appropriate?" When concerns were raised (such as when one bank raised "reputational risk"), they were quickly dispensed with, many times with the "almighty dollar" being the determining point. Greed and self interest appeared the overriding governing principles.

It reminds one of a recent *Saturday Night Live* skit featuring an investment advisor informing a group of investors that he had gotten out of the stock market "three years ago [1999] and had not followed the market since." The time is late 2002:

Advisor: "You see, around that time, we at Global Century became convinced that stocks were headed for a crash, and bonds were the safer bet. We were right. My own bond portfolio is up nearly 30 percent."

Investor: "But, if you were moving out of stocks and into bonds three years ago, why were your brokers telling people like me to do the exact opposite?"

Advisor: "Well, if you think as we did that stocks are headed down and you want to unload them before a crash, you have to convince someone out there to buy them; that's just common sense."

Investors thank the advisor for his "honesty" and the skit concludes,

Advisor: "We like to be completely upfront with our clients—that's why in our prospectus we clearly state that our investment advice is often self-interested or deceitful and may work to a client's disadvantage. We think you deserve to know that."

Sound funny? Let's go to July 23, 2002, day one of a two-day hearing before the PSI. Bob Roach, chief counsel for Senator Carl Levin (D-Michigan), then subcommittee chair, and I had presented staff testimony in a hearing entitled "The Role of the Financial Institutions in Enron's Collapse." The staff testimony, coupled with testimony from representatives of Moody's and S&P, and that of Lynn Turner, former chief accountant to the SEC, had painted a picture of major financial institutions assisting Enron in misleading public investors by manipulating its financial results. Representatives of three prominent Wall Street firms were to appear.

After hours of testimony about transactions that these financial institutions had structured and executed in a manner that allowed Enron to materially misstate its financial position to the public, the following exchange took place between Senator Levin and David C. Bushnell, managing director, Global Risk Management, Citigroup/Salomon Smith Barney:

Sen. Levin: "But would you agree that you have a responsibility not to participate in a deception?"

Mr. Bushnell: "It depends on what the definition of deception is."

Is this really different from the *Saturday Night Live* skit? Do we really believe that investor confidence will return if this is the prevailing attitude on Wall Street?

Consider other facts. One banker's e-mail said, "Enron loves these deals as they are able to hide funded debt from their equity analysts because they (at the very least) book it as deferred [revenue] or (better yet) bury it in their trading liabilities." As Enron began to unwind in late 2001, one e-mail expressed alarm about a series of transactions known as "prepays," which in essence were disguised loans. "Five [billion] in prepays!!!!!!!!!!!!!!!!" The reply? "Shut up and delete this email."

Another investment bank had done its own internal analysis of Enron and concluded that there were billions more in debt than was reflected on Enron's books or known by credit rating agencies. This particular institution was marketing securities, with proceeds going in part to reduce the Enron credit exposure of its commercial banking affiliate. Presentation materials for these transactions prepared by the bank touted the fact that no disclosure of details about the underlying transactions would have to be made to credit-rating agencies.

When asked about these matters and whether additional disclosure in offering documents was warranted, we were informed: "No. Even after adding that on, Enron was still an investment-grade company." The bankers seemed oblivious that the translation of that comment was, "You don't have to tell investors the truth as long as you think it's a good deal."

Senate Governmental Affairs Committee Chairman Joseph Lieberman (D-CT), left, and Senate Permanent Subcommittee on Investigations Chairman Carl Levin (D-MI) hold a press conference January 2, 2002, to announce their plans to investigate the recent collapse of Enron Corporation.

As to "reputational risk," on the second day of PSI hearings, representatives of Merrill Lynch appeared to defend, among other things, the "Nigerian barge deal." We suggested that Enron had pressured Merrill at the end of 1999 to purchase an interest in three Nigerian power barges from an Enron subsidiary for a price that allowed Enron to record $28 million in revenue and $12 million in pretax profits. Despite Merrill's denials, documents indicated there was an understanding that Enron would arrange for the barges to be repurchased from Merrill within six months at a specified rate of return, all of which occurred as scheduled. This made the substance of the transaction at best a bridge loan because true ownership of the barges did not pass to Merrill. This, in turn, made recordation of the revenue and profit by Enron improper because the transaction was not a true sale.

We felt, given the background, that Merrill entered into the transaction solely to ingratiate itself with Enron in order to garner a larger portion of the enormous investment banking fees that Enron generated. Significantly, one of the executives involved in the transaction wrote this about the transaction in late 1999:

"… reputational risk (i.e. aid/abet Enron income stmt [statement] manipulation …"

Obviously, the risk was not great enough—the transaction was executed as planned. Following our hearings in late July, we met with representatives of the SEC and the Enron Task Force to brief them on our observations and findings. The evidence we revealed in our hearings was referred to both the SEC and the Department of Justice. On March 17, 2003, the SEC announced that it had settled charges with Merrill Lynch that it had aided and abetted Enron's earnings manipulation during 1999 through participation in the Nigerian barge deal and one other energy trade. The fine—$80 million.

And the final words in the SEC's announcement—"The Commission's investigation into Enron is ongoing." As well it should be.

It Was More Than Enron (And That's Why There's Sarbanes-Oxley)

Although in early 2002 there were numerous calls for accounting reform, as time progressed the calls subsided. There was much discussion that perhaps Enron was just "one bad egg." By early May, many, including former SEC chairman Arthur Levitt, predicted that accounting reform would not become law. The press lamented the "shelving" of the Sarbanes accounting reform bill. Senator Jon Corzine remarked that it was "unlikely that we will get strong reform unless there is a new event that captures the [public's] imagination."

Well, they got it. The "one bad egg" argument began to fall on deaf ears as one after another high profile accounting scandal emerged. Every morning, GAC staff received an e-mail of the Washington Morning Update, a description of newsworthy items that

could affect investigations or legislation pending before Congress. When I first joined the GAC staff, one section each day was "Enron News." During May, the header changed to "Corporate Scandal News," reflecting the growing number of corporate improprieties (e.g., Adelphia, Tyco, ImClone).

These events provided the impetus for the Sarbanes bill to be reported out of the Senate Banking Committee in late June on a 17–4 bipartisan vote. Majority Leader Tom Daschle initially indicated that the earliest the Sarbanes bill could go to the Senate floor was September. The usual result of such a delay is the death or, at minimum, substantial weakening of legislation. On June 25, it was reported "the only thing that's going to get this ball [accounting reform] moving again is another major accounting scandal."

Again, they got it. The very next day, as if on cue, front pages of every major newspaper reported that WorldCom had misstated billions of dollars of expenses in what might be one of the largest accounting deceptions ever. Daschle accelerated the timetable, calling for a July vote on the bill. The final Senate vote on the bill took place on July 15. The vote was 97–0, a rare show of unanimity in an extraordinarily short time period on what has been termed the most sweeping changes to securities laws since the passage of the Securities Act of 1933 and the Securities Exchange Act of 1934.

So What Did Sarbanes-Oxley Do?

The final Sarbanes-Oxley Act, while requiring studies about several "watchdogs" (e.g., securities analysts, credit rating agencies, and investment banks), focused on two "Greenspan guardians" that arguably had the greatest culpability in the Enron collapse—independent auditors and independent directors. The Act created the Public Company Accounting Oversight Board and requires registration of auditing firms that audit public companies. The seeming inability of the auditing profession to police itself led Congress to impose direct regulation, through the SEC and the PCAOB, of the auditors of public companies and to restrict the relationships of auditors with those companies in an effort to restore auditor independence.

> The adage that those who forget history are doomed to repeat it still applies.

Much of the rest of Sarbanes-Oxley addressed the perceived failure of independent directors. It did this indirectly through focusing on the independence, power, and authority of audit committees, and on certain actions of corporate officers over whom directors had failed to exercise appropriate oversight. The Act "federalized" and some would argue "intruded" upon what generally were state law concerns, namely corporate governance and other matters that traditionally had been matters of board discretion. Many if not all of these "intrusions" can be traced directly to the perceived failings of the boards of directors of Enron and other corporations that experienced high profile failures.

Former Enron CEO Kenneth Lay takes the Fifth.

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Consider

- Conflicts of interest and lack of independence of boards and audit committees, as well as audit committees' failure to interact appropriately with auditors and to have effective mechanisms for "whistleblowers" (i.e. Sherron Watkins) led to Section 301's requirements that the stock exchanges require listed companies to have independent audit committees, with broad powers and responsibilities in respect to the audit function and engagement and oversight of auditors, the ability to engage outside advisors, and the responsibility to institute internal complaint procedures. Pending rules from the exchanges also would require independent nominating and compensation committees and that a majority of the board members be independent.
- Excessive loans to executives, for example, Ken Lay's $4 million (increased to $7.5 million) company line of credit used in what was termed an "ATM approach," repeatedly drawing down the line and repaying it with Enron stock ($77 million dollars sold to the company during a 12-month period) with board members disavowing monitoring responsibilities, led to Section 402's ban on personal loans from public corporations to their executives.
- Lay's repayment of his company credit line with stock in a manner that avoided prompt disclosure of these dispositions at the same time he urged employees to continue to buy Enron stock and trading by executives, while lower level employees were prohibited by plan "black out" restrictions led to Sections 306 and 403, which required rules to prohibit trading by executives during such blackout periods, and accelerated and closed certain "loopholes" with respect to prompt public disclosure of stock dispositions by executives.
- The perceived inattention by boards and audit committees to excessive compensation linked to short term stock price appreciation (that in turn was linked to "high risk" accounting practices and extensive off-the-books transactions) and other financial measures, and the perceived failure by Enron's board and audit committee to understand (or attempt to understand) Enron's complex financial structure contributed to the Act's requirement that CEOs and CFOs personally certify the company's financial statements and public reports and attest to the effectiveness of their internal controls, Section 304's bonus forfeiture requirements, Section 401's requirements for rules relative to disclosure of off-balance sheet transactions and "pro-forma" reporting, and Section 407's disclosure requirements concerning whether a company has a "financial expert" on its audit committee.
- The Enron audit committee's perceived failures in its waivers of conflicts of interest that allowed corporate officers to reap multi-million dollar windfalls led to Section 406's disclosure requirements concerning codes of conduct for senior financial officers and waivers of those codes.
- The perceived failings of the lawyers handling failed or deceptive transactions led to Section 307's requirement for "up the ladder" reporting as well as the SEC pronouncement that the organization, rather than management, is the attorney's client to which the attorney's loyalties are owed.

Fred Thompson, ranking member of the Committee on Governmental Affairs, and Gary Brown, Vanderbilt law alumni, confer in a Senate hearing on the Enron collapse.

> Most if not all of the new laws and regulations adopted over the past year can be summarized in very simple principles: Do your job and do the right thing. When one examines the Enron collapse and host of other recent corporate scandals, it is easy to conclude that no one adhered to these simple principles.

So—Have We Learned Anything?

Consider the following:

- Americans have become suspicious of banking practices that, in the public view, have undermined the prosperity of the past decade.
- Congressional investigations have exposed cases of double-dealing in the securities business. Self-dealing and outright fraud (not the least of which involved a gigantic, rapidly growing energy operation) have become associated with erosion of the stock market.
- Senate hearings have revealed financial irregularities of large New York banks, their executives, affiliated securities companies, and Wall Street investment bankers.
- Leading Wall Street investment banks are under fire for their lending and investing practices, including transactions designed to allow companies to misstate their financial results. Private side deals and tax avoidance have evoked much criticism of executives and their corporate activities in banking and commerce.
- The problem—all of the above that appear to be headlines of 2002 actually are the findings of a 1932 Senate committee that investigated the 1929 stock-market crash. The energy company was not Enron; it was Insull. The bankers were not J.P. Morgan Chase or Citigroup, but their direct corporate predecessors. Obviously, the adage—those who forget history are doomed to repeat it—still applies.

Consider further the following comments:

"The anxieties created by the … Act—among men and women of utmost good faith—have been … without equal. This consternation can be attributed, in significant part, to the spectre which some commentators have raised of exposure to [SEC] enforcement action, and perhaps criminal liability, as

a result of technical and insignificant errors in corporate records or weaknesses in corporate internal controls."

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"The existence of a pattern of questionable [activities] by prominent American corporations … —often in bold headlines—shook faith and trust in the integrity of the corporate sector. This reaction became part of a rising tide of public skepticism and served to further undermine the traditional American consensus that business conducts itself and reasonably pursues its own economic interests in a manner consistent with the standards and expectations of the larger society."

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"Statute or no, these are, of course, inherent obligations of the stewardship of a public corporation. The standards embodied in the Act's … provisions are, in effect, the cardinal principles of managing a business enterprise. Among many members of the business community, few would dispute that acceptable management cannot be achieved absent such records and controls. In that sense, this is hardly the stuff of radical legislation."

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These comments, however, are not in reference to the Sarbanes-Oxley Act of 2002; they are in reference to the accounting provisions of the Foreign Corrupt Practices Act of 1977. And what engendered those provisions? What was termed "the most devastating disclosure"—"the fact that, and the extent to which, some companies have falsified entries in their own books and records." These comments in the SEC's Statement of Policy Regarding the Foreign Corrupt Practices Act of 1977 were accompanied by a statement acknowledging certain developments then being made in corporate accountability. The SEC's policy statement indicated that these developments, rather than the provisions of the FCPA, were the "most effective antidote" to the conditions that led to the questionable practices that, in turn, led to passage of the FCPA. The two leading "antidotes":

- Increase in the number and responsibility of independent directors; and
- Effective audit committees composed of independent directors.

The Lesson

The newly appointed chairman of the SEC, William Donaldson, recently indicated that the public trust in financial markets will not return so long as executives use the limits of the law as the test of right and wrong. Donaldson called on corporate America to put honesty and integrity at the heart of every business decision. As we have seen, neither the Securities Act of 1933 nor any of the other statutes of the '30s (e.g., the Securities Exchange Act of 1934, the Trust Indenture Act, the Investment Company Act, and the Investment Advisors Act) eliminated fraud and wrongdoing. Neither did later statutes, such as the Foreign Corrupt Practices Act.

Likewise, neither Sarbanes-Oxley nor any of the host of rules promulgated following its passage will eliminate fraud. New and enhanced civil and criminal penalties, however, have raised the stakes for those who participate in corporate wrongdoing. For example, the penalty for wire and mail fraud has increased from five to 20 years. More transparent accounting and more vigilant directors may eliminate some opportunities, but if the past is any indication, greed and self interest will rise to the occasion. Perhaps now, however, with the stakes higher, top executives will think twice before succumbing to temptation.

Indeed, when one examines the stacks of new laws and regulations that have been adopted over the last year, most, if not all, can be summarized in very simple principles: Do your job and do the right thing. When one examines the Enron collapse and host of other recent corporate scandals, it is easy to conclude that no one adhered to these simple principles. Directors must understand the operations of the companies on whose boards they sit and must insist on a higher standard of personal conduct from corporate executives. Those executives must be prepared to "take the fall" for errors, particularly those in judgment or integrity. This standard will not be met by technical compliance within a corporate environment that does not otherwise foster integrity. Directors and senior management must make clear what is expected, then reward those who conform and perform, and hold accountable those who do not. Only then can we avoid the failures of the past.

More transparent accounting and more vigilant directors may eliminate some opportunities for fraud, but if the past is any indication, greed and self interest will rise to the occasion. Perhaps now, however, with the stakes higher, top executives will think twice before succumbing to temptation.

Gary Brown, L'80, adjunct law professor and member of the Nashville firm of Dinsmore & Shohl, LLP, served as Special Counsel in the Senate Investigation of Enron.

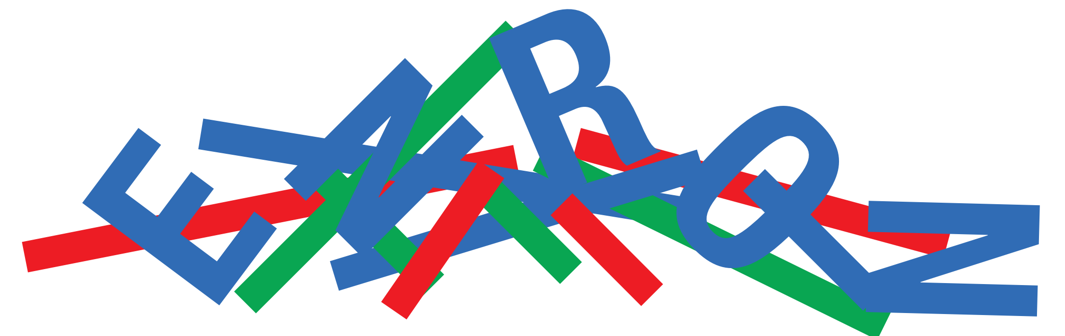
Enron Chronicles

Surviving Enron:

Turning Shattered Innocence into Resolve for Better Corporate America

BY STEPHEN PLAUCHE

Many things, good and bad, have been written about Enron Corp. over the last five years. Once thought to be a shining example of the 21st century business model, Enron will now and forever stand as the poster child for greed run amok and the absolute failure of the corporate governance system in the U.S.



My employment with Enron began as a financial analyst on June 30, 1997. Exactly five years, one promotion, eight business units, and one massive bankruptcy later, I left the firm on my own accord, having weathered the storm of massive layoffs and corporate malfeasance. How did the experience change me as a person and what personal impressions or scars remain? More important, what insights can I share with the Owen community that will make us all better corporate citizens and more aware of the potential hazards facing managers today in the global business community?

When I arrived on the Enron "campus" in 1997, I was the epitome of the young and green "eager beaver," ready to conquer all, make money, and do whatever it took to make Enron the best energy trading company in the world. What I quickly discovered was that outside of the fast-paced trading floors and serene corporate finance floors, few Enron employees were satisfied with their position in the firm. Nearly everyone I met wanted to be a "commercial guy"—the people who cut the deals, traded the positions, made the money, had all the respect, and could basically do no wrong. After a few months on the wholesale commodity desk, I found that this mind-set permeated from the top of the organization and was most clearly manifested by Jeffery Skilling, a Harvard MBA, who had left McKinsey & Company to start up Enron's wholesale gas trading business.

Skilling was a hard driver. Case in point: He was such an avid believer in "pay for performance" that he instituted the now-infamous "yank and rank" performance review process whereby the bottom 10 percent of the employees in the normal distribution were sent packing twice a year. People commented that his ruthless behavior often mirrored that of Louis XIV, himself a master of power, control, and politics. For example, at one point it was reported that Skilling felt his position as front-runner for the position of CEO was threatened by two other top executives in the firm. What did he do? He promoted both of them to the position of vice chairman and nominated them for seats on the Enron Board of Directors. Skilling, following the example of the "Sun King," was "keeping his friends close, but his enemies closer." Over the next year, supposedly, he gave one of these directors a new business unit to manage that he thought would ultimately fail. It did. The second executive lasted longer but ultimately left the firm in frustration. Unfortunately, Enron lost two of its finest and most admired leaders: Rebecca Marks, also a Harvard MBA, and Joe Sutton, a former high-ranking U.S. military officer. When you posed a threat to Skilling, the gloves came off.

It seemed that Skilling's lust for power was matched only by his greed and burning desire to prop up the stock price. Case in point: A close friend interviewed with Andrew Fastow, CFO, for an analyst position in his financing group, nicknamed the LJM group. The acronym stood for the first letter of the first names of Fastow's wife and two children. The group's main responsibility was to structure Enron's off-balance sheet financing transactions, those designed primarily to help fuel the firm's stratospheric growth rate. My friend related that during the interview, it became apparent that much of the group's activity revolved around highly questionable business

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practices. When my colleague asked Fastow what Skilling thought of the group and its place in Enron's future, Fastow replied, "Skilling loves the deal flow we bring into Enron. Its like cocaine to him—he can't get enough." Given the debt level associated with LJM-related transactions and the effects they had on Enron's ultimate demise, it appears that this was a habit that maybe should have been kicked.

I have numerous other anecdotes from my time at Enron. Some of the more memorable ones include watching former NBA-great Clyde Drexler play a pick-up game of basketball with Ken Lay in front of the company's HQ during lunch hour; sitting in the field boxes watching the Astros play the New York Yankees in the first baseball game at the stadium formerly known as Enron Field; watching the value of my in-the-money options jump nearly $13/option in one-trading session because Scott Nealy, CEO of Sun Microsystems, appeared at a press conference where Skilling and Lay formally announced Enron's entrance into the broadband and Internet markets; hearing Skilling call a respected Wall Street equity research analyst an "asshole" under his breath while on a conference call explaining the firm's seeming web of financial statements; listening to Ken Lay describe in agonizing pain that the firm would be forced to merge with Dynegy Corporation in order to survive; and ultimately witnessing as thousands of my co-workers watched their computer screens go blank and hearing the voice of an HPD officer telling them to pack their bags and vacate the building in a half hour's time on Monday, December 3, 2001, the day after the firm filed for bankruptcy protection. Although this day gratefully didn't mark the end of my tenure at Enron, this day did mark the end of my innocence forever as a trusting and loyal employee of corporate America.

> I will always be tormented by thoughts of what could have been for me and thousands of my former colleagues had Enron's executive management acted more ethically and honorably.

What are my recommendations and takeaways from this experience for the Owen community? First, if something in corporate America appears too good to be true, it probably is. Second, never put anyone you work for or with on a pedestal, no matter how respectable, honest, and smart they appear to be. Every person is susceptible to the basest of human emotions including greed, pride, and envy. Third, it is of paramount importance that everyone in corporate America do all they can to ensure that the best people sit on their firm's board of directors. Board members are the last line of defense for deviant manager behavior and corruption. They are charged with the ultimate responsibility of keeping the weights of all firm stakeholders balanced over time. With this awesome power comes awesome responsibility. Without a strong board dominated by unbiased outsiders, no company is impervious to a similar Enron calamity.

My thoughts on this subject appear

> Wake up every morning hungry and humble, ready to take on the challenges of the new day in a moral and ethical manner.

to be cynical, but it cannot be helped; I am a product of my environment and the pain of the experience is now a firmly entrenched part of my nature. I wouldn't give up my 5-year Enron experience for anything, but I will always be tormented by thoughts of what could have been for me and thousands of my former colleagues had Enron's executive management acted more ethically and honorably. I am less trusting and more suspicious than I once was, and find myself much more reticent to give people the benefit of the doubt. Perhaps because I loved my company too much, my most lasting impression is the pain of betrayal I felt when the truth surfaced regarding just how wrong Enron's executives had acted in their attempt to fatten their own wallets at the expense of many of the firm's stakeholders.

I urge tomorrow's leaders to learn from the mistakes of yesterday's leaders. Don't let hubris and your personal desire for riches turn you into monsters who lead more by fear and intimidation than by example, inspiration, and admiration. Wake up every morning hungry and humble, ready to take on the challenges of the new day in a moral and ethical manner. Above all else, think for yourself and make decisions you will be able to live with later in life. Don't be lemmings, allowing personal relationships and peer pressure to persuade you to throw your weight and vote behind potentially unlawful and fraudulent activities. If we can rise above at least a few of humankind's basest emotions, maybe we can avoid another string of corporate scandals that have had such a permanent effect on our country's stability and outlook on life.

Stephen Plauche, a former Enron employee, is a second-year student.

Nashville Holds Key to Start-Ups

Owen's increased emphasis on entrepreneurship is a natural considering Nashville's business history. Ranked in the top 20 cities to start and grow a company (*Inc*, December 1, 2000), Nashville not only is still turning the heads of potential and existing entrepreneurs across the nation, but getting noticed by those in the larger business community as well. More recently, *Entrepreneur*, in association with Dun and Bradstreet, ranked Nashville the ninth best city for entrepreneurs (October 2002). A more detailed review ranks Nashville third by population group (750K-1 million) in high-growth entrepreneurial companies (National Commission on Entrepreneurship, July 11, 2001). In that year, Nashville had a whopping number of 1,465 high-growth companies.

Nashville's entrepreneurial spirit, strangely but fittingly enough, has grown out of its defiance of "big time" business trends. David Condra, president of the Nashville Technology Council, points out that Nashville never produced its own staple industry, like Detroit did with automotive manufacturing or Pittsburgh with steel. Therefore, Nashville was more receptive to a fertile business landscape. The maxim "bigger is better" also does not hold water when looking at the high entrepreneurial growth compared to Nashville's relatively small size. Condra says that "it's easy to get connected in Nashville because of its size, and that is key to starting up a company."

"It's in the city's genes," he continues, in explaining Nashville's entrepreneurial spirit. Joe Maxwell, '94, CEO and founder of Investment Scorecard, interprets Condra's statement literally: "Many entrepreneurs start here, and their children may then join the family business or are more apt to start their own."

Legacy may be a reason for some to pave their own business path, but not all entrepreneurs spring from the same source. "Last week, I sat down with an entrepreneur straight out of Owen Business School and then another who was wholly self-educated," says Sheila Tidwell, partner of Nashville Advertising Promotions.

Entrepreneurship also thrives on Nashville's open-minded and friendly environment. "I have lived in Sri Lanka and Quebec, and when I came to Nashville, I was surprised at how this city embraces so many different cultures," says Patricia Paiva, who started Aurora Bakery with friends in 1999. "This is not only an asset to me, but to my business. For example, I just hired a Bosnian baker, which helps me to make a diversity of products that appeal to a diversity of people."

How do these entrepreneurs become and remain strong business leaders? Nashville-area entrepreneurs have a long list of resources at their disposal including the TennesSeed Fund, the Technopreneurial Leadership Center (TLC), the Venture Capital Forum, and the FastTrac program. However, you'll likely hear entrepreneurs talk about their customers as their greatest resource. When it comes to creating a new product, Paiva turns to the bakery's neighborhood: "I have an Italian cake and a Hispanic cake side by side because of the community's rich input."

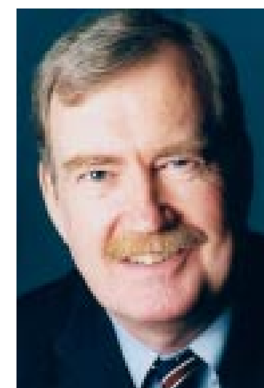
Maxwell credits the entrepreneurial community for giving him "lots of advice from different business angles, which has helped to make things run smoothly." Tidwell adds that although others in your field are competitors, "it doesn't seem like it because we share knowledge."

Throughout the years, Nashville has used an unmarked entrepreneurial frontier to its advantage. It is up to the entrepreneurs to continue their discoveries and demonstrate their creative punch. And Nashville will be waiting...not for its own defining industry but for fresh starts that will define the city as a ready progressive.

—Hayne Barnwell, A'02

What Makes a Great Business Lawyer?

Great business lawyers have at least 10 traits in common. A great business lawyer obviously has much knowledge and experience in corporation, limited liability company, and partnership law. But also essential is an understanding of where securities law problems may lay buried. Securities law is so intertwined with other business law, they are really parts of the same whole. A lawyer who can't guide you through the minefield of securities law may well get your business killed sooner or later.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A great business lawyer will have a practical feel for your business. A lawyer doesn't need to be an expert in the business, but does need to understand what makes the business go and what will cause it to stall. Often what is necessary is common sense, and all great business lawyers have a full measure of that.

If your lawyer simply says "No" to something you desire, your lawyer has a problem, save on rare occasions. Great lawyers may have to tell you something can't be done, but they almost never leave their answer at "No." Great lawyers look for ways to fulfill a client's wishes, by roundabout means if necessary. They look behind the client's questions to discover what the client really wants, and then find ways to accomplish it if at all possible.

Skill as a drafter is found in all great business lawyers. This skill is as important to lawyers as are cutting and suturing skills in a surgeon, because it's often through drafting that a lawyer accomplishes the client's goals. Just as important to getting the job done is the ability to work with other business lawyers. To do that successfully, a lawyer needs respect, and respect from other business lawyers is impossible for someone who can't draft with precision. Read a lawyer's letters. If they are awkward or stilted, you can be sure the lawyer can't draft worth beans.

A lawyer can have all the right skills and still be lousy without the proper approach to certain business situations. There are two aspects to this question of approach. A lawyer must be able to adjust to a business client's risk tolerance. Some clients enjoy operating on the edge of every risk. Others want to stay as far from risk as possible. It's their choice. Great lawyers never forget who makes these decisions.

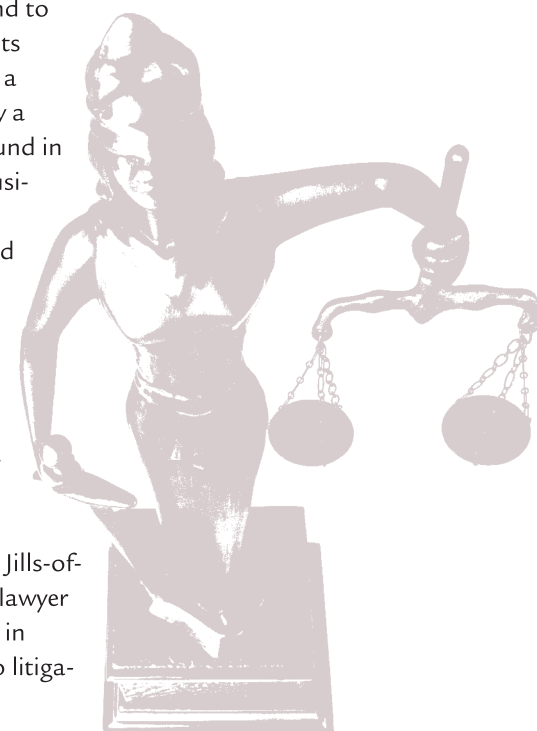
Great business lawyers are also nonadversarial in their general approach to other lawyers and to people with whom their clients deal. There are occasions for a junkyard dog performance by a lawyer, but they are rarely found in a business practice. Other business lawyers don't like to be mauled by junkyard dogs, and the client of such a lawyer will pay, sometimes with a busted deal. Great business lawyers can slip into an effective adversarial mode when needed. What's important is to know when it's needed and how to do it.

There are no legal Jacks or Jills-of-all-trades, and so a business lawyer needs to have on call lawyers in many specialties, from tax, to litigation, to property, to anti-trust. Since lawyers also get sick and take vacations, a lawyer needs to be backed up by other great business lawyers who can step in when necessary.

Which leads to the last attribute of a great business lawyer. He or she is available. If that isn't possible, a first-rate stand-in will be available. And, in any case, the client's work gets done in a timely manner. Otherwise, what good to a client is the best lawyer in town?

–Larry D. Soderquist

Larry D. Soderquist is a Vanderbilt law professor and director of the Corporate and Securities Law Institute, and of counsel to Dinsmore & Shohl LLP in Nashville. He has written a number of books on corporation and securities law, as well as two mystery novels set on a university campus, the most recent being *The Iraqi Provocation*.



HEADLINES

FROM AROUND THE WORLD

(Full text for these and other stories is on Owen's Website, "Owen Media Mentions.")

Will Services Go Manufacturing's Way?
For years, manufacturing bore the brunt of companies' efforts to control costs. Now, it's the service sector's turn. Amid a weak global economy and intense pressures from investors to boost shareholder returns, service businesses, too, have been merging and are shipping jobs overseas to boost profits by slashing costs even further. Ron Masulis, professor of finance at Vanderbilt University's Owen Graduate School of Management, comments.
—***Barron's Online,*** June 25

Where Will Carly Fiorina Take HP?
In 1996, Carly Fiorina vaulted into the spotlight by helping to make Lucent Technologies the year's most successful IPO. Now, four years into her tenure as CEO of Hewlett-Packard, Fiorina has been the most watched woman in business. Fiorina's gender is becoming a sidebar to the central debate over whether she has the right vision for the Silicon Valley legend she now controls. "Mercifully, the discussion has turned to more substantive issues," says Donna Hoffman, professor of management at Vanderbilt University.
—***Business Week,*** May 29

Over-Prescription Adds $3.5 Billion to Drugs Bill
Japanese doctors, many of whom dispense drugs directly to patients, routinely prescribe overly expensive medicines or ones that patients do not need at all, according to an academic study. The Japanese system, which has traditionally allowed doctors to pocket the difference between the wholesale and recommended retail price of a drug, has skewed prescription decisions and fostered collusion between doctors and pharmaceutical companies, says Toshiaki Iizuka, a Vanderbilt University professor and author of the paper.
—***Financial Times,*** May 27

An Educated Consumer
Almost everybody knows that car prices are negotiable. But many don't know that they can bargain with a dealer over the finance interest rate. Research conducted by Vanderbilt University economist Mark Cohen is mentioned.
—***Forbes,*** May 23

Key IPO Market Observer Not Satisfied with Market Reform
The IPO market's top academic researcher thinks Wall Street still has its work cut out for it in reforming the IPO process. University of Florida finance professor Jay Ritter presented a report on the issue at a two-day conference in Nashville, sponsored by Vanderbilt University's Owen Graduate School of Management's Financial Markets Research Center.
—***Dow Jones Newswire,*** April 15

Decimals Make You Pay
It's widely believed that stock-market liquidity has dried up since decimals came along, but what has been the effect on mutual funds? "Common Cents? Tick Size, Trading Costs, and Mutual Fund Performance," a new study by a Vanderbilt University assistant professor of finance, Nicolas Bollen, and co-author Jeffrey Busse, estimates trading costs have increased by as much as 1-2 percent of assets annually for active managers.
—***Barron's Online,*** March 3

As Easy as 1,2,3
Taking care of the basics out of order can wreak havoc on your business before it gets off the ground, or at the very least cost you in money, time, and frustration after it's already up and running. Like parenting, what to do—and when to do it—is a learned skill in starting a company. "Once you've done it three, four, or five times, everything's just automatic," says Bruce J. Lynskey, a professor at the Owen Graduate School of Management at Vanderbilt University in Nashville, Tennessee, as well as an entrepreneur who has started six technology companies.
—***Entrepreneur,*** February 19

Managing in a Slow-Growth Economy
No matter what your industry is, or what your company's 2002 performance was, or whether or not you believe the Bush administration's economic plan ultimately will be successful, 2003 cannot be a year of business as usual. Jim Bradford, former president and CEO of United Glass Corp., and now associate dean and clinical assistant professor of management at Vanderbilt University's Owen Graduate School of Management, comments.
—***Industry Week,*** February 13

faculty NEWS

Bruce Barry, Brownlee O. Currey Associate Professor of Management, published an article on intrapersonal decision making in the *Journal of Behavioral Decision Making* (with co-authors from five other universities), and another paper on ethics in conflict resolution in *International Negotiation* (Barry and co-author Robert Robinson were guest editors of the journal's special issue on this topic.). Barry was an invited panelist at a session on ideological, ethnic, and value-based conflict at the annual Academy of Management meeting in Denver, and in a symposium on power and emotion in negotiation at the annual meeting of the Society for Industrial and Organizational Psychology in Orlando.

Germain Böer, professor, received the 2003 Tennessee Small Business Administration Research Advocate of the Year Award. He recently organized a NextGen meeting featuring a biomedical engineering researcher discussing how to use light to discern healthy and diseased tissue, and panel discussions on venture capital and "How to Identify a Good Business Idea. He and Bruce Lynskey, clinical professor, organized a meeting of successful entrepreneurs, who developed a set of recommendations for Governor Phil Bredesen on making Tennessee a better place for entrepreneurship. They also organized a conference on "Launching the Venture" last fall.

Nicolas Bollen, assistant professor, presented his paper "Common Cents? Tick Size, Trading Costs, and Mutual Fund Performance" (with Jeffrey Busse) at the University of Colorado in April, and at the Western Finance Association's annual meeting in Los Cabos, Mexico, in June. The paper, which estimates that mutual fund trading costs increased significantly following the switch in the U.S. to decimal pricing of stocks, received coverage in *Barron's* on March 3. Another paper, "Does Net Buying Pressure Affect the Shape of Implied Volatility Functions?" (with Robert Whaley) has been accepted for publication in the *Journal of Finance*.

Ruth Bolton, professor, published the following papers in 2002: "Modeling the Effect of Customers' Emotional Responses to Service Failures On Their Recovery Effort Evaluations and Satisfaction Judgments," (with A.K. Smith), in *Journal of the Academy of Marketing Science, 30;* and "How Marketing Actions Affect the Value of Customer Assets," (with P. Berger, D. Bowman, E. Briggs, V. Kumar, A. Parasuraman, and C. Terry), in *Journal of Service Research,* 5. During 2002, she also made presentations at Ohio State University, University of Minnesota, Emory University, Babson College, University of Connecticut, the Cardiff Business School Research Event, Norwegian School of Management, and the University of Mainz, Germany.

Mark Cohen, professor, presented two papers—"An Economic Approach to Crime: Balancing the Costs and Benefits" and "Corporate Criminal Liability and Punishment: An Economic Approach"—at a conference at the University of Warsaw sponsored by the U.S., British, and Dutch embassies. The proceedings will appear in the Polish journal *Ius et Lex* of which Cohen serves on the international board. He also is on the advisory board of the Benchmark Survey of Global Environmental & Social Reporting, and has been awarded a Leverhulme Visiting Professorship at the University of York (U.K.). His paper, "Determinants of Environmental Innovation in U.S. Manufacturing Industries" (with Smita Brunnermeier) appeared in *Journal of Environmental Economics and Management.*

BÖER NAMED TN SBA RESEARCH ADVOCATE OF THE YEAR

Böer

Professor Germain Böer is the inaugural recipient of the Tennessee Small Business Administration Research Advocate of the Year Award for his work through the Owen Entrepreneurship Center that he founded.

Criteria for the award include the development or implementation of curricula to study small business or entrepreneurship. Böer has developed innovative coursework at Owen, and conducted outreach to entrepreneurs at the Biz Tech incubator center in Huntsville, Alabama. He also has organized leading edge conferences and seminars targeting entrepreneurs statewide.

"We're interested in helping our students and other entrepreneurs create wealth, and we've had quite a few success stories," Böer notes.

"Böer represents the ideals that have inspired and motivated students and entrepreneurs for many years," says SBA District Director Phil Mahoney. Böer has assisted the SBA in such ways as welcoming the organization to Owen conferences and seminars, allowing them direct interaction with the entrepreneurs and an opportunity to talk about SBA programs and services.

Bruce Cooil, associate professor, recently published "Predictors of Aortic and Coronary Artery Calcification on a Screening Electron Beam Tomography Scan," (with P. Raggi, A. Hadi, A. and G. Friede), in the March issue of *American Journal of Cardiology.* A paper on "Using the Conditional Grade-of-Membership Model to Assess Judgment Accuracy" will appear this fall in *Psychometrika.*

Ray Friedman, associate professor, this year taught a new course—Doing Business in China. He also presented papers at Hong Kong University of Science and Technology, and City University of Hong Kong, and currently is studying conflict management and negotiation in China. His paper (with Simon Tidd) "Conflict Style and Coping with Role Conflict: An Extension of the Uncertainty Model of Work Stress" was published in *International Journal of Conflict Management.*

Luke Froeb, the William C. and Margaret W. Oehmig Associate Professor of Entrepreneurship and Free Enterprise (with Gregory Werden, senior economic counsel at the Antitrust Division of the U.S. Department of Justice), held a two-day course for the competition authorities of the United Kingdom and Canada, hosted by the UK Office of Fair Trading in April, and the Canadian Competition Bureau in May. The course applies quantitative economic models to competition issues, especially those arising with mergers of competitors. Much of the course material was based on joint research with Vanderbilt math faculty members Steven Tschantz and Philip Crooke.

Donna Hoffman, professor, recently had papers related to online consumer behavior and digital commerce accepted in *Marketing Science, Information Systems Research, Journal of Consumer Psychology,* and *Journal of Public Policy and Marketing.* She gave a keynote address at the American Marketing Association EXPLOR Forum, and served as a judge for the Electronic Frontier Foundation Pioneer Awards. Hoffman co-directs the new Vanderbilt University Sloan Center for Internet Retailing that she and Professor Tom Novak recently launched with a grant from the Alfred P. Sloan Foundation.

Michael Lapré, assistant professor, published "Learning Across Lines: The Secret to More Efficient Factories" in *Harvard Business Review,* October 2002 (with Luk Van Wassenhove). He and Professor Gary Scudder presented the paper "Airline Performance Improvement Paths: Linking Tradeoffs to Asset Frontiers" at the POMS (Production and Operations Management Society) meeting in Savannah, Georgia, and received the Wickham Skinner Award for Best Paper at this meeting. Lapré also presented this research at INSEAD in Fontainebleau, France, and taught a three-day course on operations management at ESC (Ecole Superieure de Commerce) Rouen in France.

Ronald Masulis, Frank K. Houston Professor of Finance, published "Trading Activity and Stock Price Volatility: Evidence from the London Stock Exchange" (with Roger Huang) as the lead article in the May issue of *Journal of Empirical Finance.* His presentations have included "Venture Capital Investments by IPO Underwriters: Certification or Conflict of Interest?" (with Xi Li) in November at Notre Dame, and again in April at Tulane, the University of New Orleans, Vanderbilt Law School, and the FMRC annual conference. Masulis, also in April, presented "Dilution of Corporate Control and Cash

FREQUENT FLYER POINTS

Note to airlines on the verge of bankruptcy: quit slacking off.

So might airline executives infer from the study "Airline Performance Improvement Paths: Linking Trade-Offs to Asset Frontiers," by operations faculty Michael Lapré and Gary Scudder, a paper that recently landed the pair the Wickham Skinner Award for Best Paper, presented by the Production and Operations Management Society at its annual meeting in Savannah, Georgia.

Building on a 1996 paper by Harvard researchers on how organizations improve, they asked the question—should an organization first improve quality or lower costs, or do both at once? To answer the question, they studied the U.S. airline industry, using data collected since 1988 by the Department of Transportation.

Their conclusion: It depends on the amount of slack in an airline's operations. Airlines with a lot of slack, or lower utilization of planes, can improve quality and reduce costs at the same time. Those with less slack often face a trade-off in improving quality over cost.

"Successful firms in almost every case improve quality first and cost second," Lapré says. Historical data back this up: In 1989, the two airlines with the highest number of passenger complaints—Eastern and Pan Am—ceased operations during the next two years. But the most successful airlines have improved quality unabated. Southwest—with little slack—faced an initial trade-off, improving quality while temporarily increasing already low costs. Subsequently, Southwest translated excellent quality into even lower costs. Alaska—initially with a lot of slack—simultaneously improved quality and cost. Alaska's quality improvements were initially larger than its cost improvements. *—Beth Matter*

DANIEL DUBOIS

Scudder and Lapré

CLEARING THE AIR

NEIL BRAKE

Cohen

It's a growing trend—even companies not usually thought of as "green," GM and Shell Oil included, are increasingly disclosing environmental performance information. In 2002, 45 percent of the 250 largest global companies produced corporate responsibility reports. But what does such information really mean, are metrics consistent, and how can one company's information be compared to another's?

Such are the concerns of the Global Reporting Initiative, an institution that is developing and disseminating global sustainability reporting guidelines for firms that wish to report on their triple bottom line (economic, environmental, and social performance) that goes missing from many annual reports.

"GRI's purpose is to increase transparency and understanding of company performance in these areas," says Professor Mark Cohen. "GRI is a positive development, because previously it was difficult to even know what toxic pollutants a company emitted." A member of GRI's stakeholder council, Cohen long has conducted research on the relationship of a company's environmental performance to firm behavior and financial performance.

GRI reporting encompasses a wider range of categories (energy usage, water consumption, ecological effects, etc.) than EPA reporting, which just requires disclosure of chemical pollutants. It also includes such categories as human rights, worker safety, and community development. GRI at present is voluntary, but France recently required all of its publicly traded companies to report on social and environmental indicators, and other governments are considering similar requirements, Cohen says.

"There's also a growing interest in environmental and social responsibility in boardrooms. Companies want to portray a positive image, to show the world what they do and to be honest about it. That doesn't negate the profit motive, however. Companies are incorporating social responsibility into their strategy in order to make a profit. Bad social performance can kill a firm." *—Beth Matter*

new FACULTY

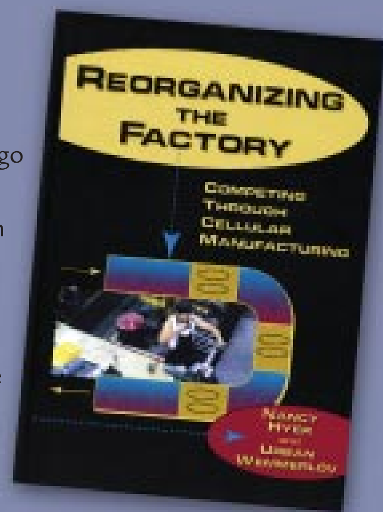
- Mara Faccio, assistant professor of finance, a Ph.D. graduate from Catholic University in Milan, Italy, will teach International Corporate Finance and Corporate Financial Policy. She most recently taught at Notre Dame.
- Jacqueline Conrad, assistant professor of marketing, comes to Owen from Duke University, where she received her Ph.D. and served as an instructor. She will teach marketing management.

Financing of European M&A" (with Mara Faccio) at the University of Miami, the University of Pittsburgh, and at Owen.

David Parsley, associate professor, recently won the 2002 Best Paper Award (fixed income category) from the Financial Management Association for "News Spillovers in the Sovereign Debt Market," (with Owen colleague Amar Gande). Recent publications include "Exchange Rate Pass-Through in a Small Open Economy: Panel Evidence from Hong Kong," in *International Journal of Economics and Finance;* and "Pricing in Export Markets," in *Review of International Economics.* He also recently was an invited fellow/scholar at the Hong Kong Institute of Monetary Research, the International Monetary Fund, and Goethe University in Germany.

Fred Talbott, clinical professor of management communications, teamed with Patsy Moore Talbott to present a teambuilding workshop for the faculty and staff of the West Maui (Hawaii) Carden Academy in January. He and Professor Bob Blanning presented "Creating and Sustaining Trust—The Foundation of Effective Communication" at the Association for Business Communication Spring Convention in Toronto in April. This summer he launches his new business humor book, *JJ's Business Bullets—Volume 1.*

HYER RECEIVES SHINGO PRIZE



Professor Nancy Lea Hyer received the Shingo Prize Research Award for her new book (with Urban Wemmerlöv) *Reorganizing the Factory: Competing Through Cellular Manufacturing.* The Shingo Prize for Research and Professional Publication recognizes and promotes research and writing regarding new knowledge and understanding of manufacturing. The book is available at productivity.com.

NO CODES, NO REDEMPTION, NO DICE

Consumers ready to make an online purchase may suddenly abandon their shopping carts if asked for a promotion discount code they do not have—a significant problem for retailers since each such abandonment (occurring as often as 25 to 75 percent of the time) costs an average of $175 in lost revenues, according to a recent study by Mikhael Shor, assistant professor of business and economics, and Richard L. Oliver, Valere Blair Potter Professor of Management.

Unlike regular paper coupons, online promotion codes require keying in a series of numbers or letters to receive a discount on a purchase. The study showed a majority of consumers who were either "codeless" or did not have the means to obtain a code do not finish their transaction.

DANIEL DUBOIS

Shor and Oliver

The study participants shopped at a fictitious Web site, ToyMart.com, offering a product, "Cuddles Baby," and were divided into three groups: those with a promotion code, those without a code, and a control group, which had no code field on the Web site.

Those most likely to purchase, with a 77 percent purchase probability, were consumers with a code, followed by the control group. "Those without a code were the least likely group to complete the purchase, with a 19 percent probability, because they perceived that others were getting a better deal on the product," Oliver says.

The study also showed that the amount of time spent looking for online coupons was directly related to a consumer's technical expertise. "Unlike traditional coupons, the time involved in searching for promotion codes varies greatly with the skill of the computer user," Shor says.

The researchers also proposed what they see as a better alternative to entering codes at checkout: sending an email promoting the use of a special discount that would link to the retailer's site and acknowledge receipt of the coupons. "Special Web pages won't eliminate equity and satisfaction issues entirely," Shor says, "but it's one way to maintain the traditional retail experience in an online environment—and attempt to keep the consumer happy." —*Susanne Loftis*

class ACTS

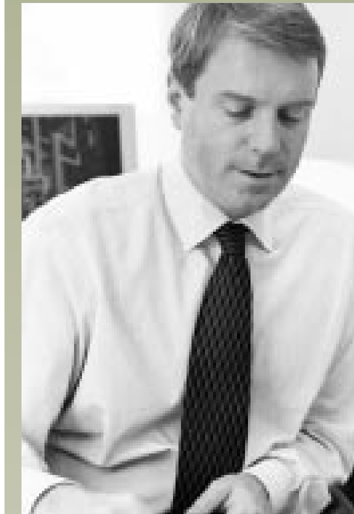
PLEASE NOTE:

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

Know a Good MBA Candidate?

Refer them to Owen's MBA Admissions Office or the Owen EMBA Office. In addition to saving the candidate the $100 application fee (only for students referred by members of the Owen community prior to submitting an application), referrals can help to improve the size, quality, and diversity of the applicant pool.
Refer MBA students online at mba.vanderbilt.edu/mba/index.cfm; EMBA students at *emba@owen.vanderbilt.edu.*

Financial Futures



Davis

Were there any reality to "success by association," Jeffrey P. Davis, '82, jokes that his educational history predicted his present. "In the Delaware public school system, I attended Alfred I. Dupont Elementary, Henry B. Dupont Middle School, and Alexis I. Dupont High. After undergraduate school at Duke, I went on to get an MBA in finance from Vanderbilt. There's this old, wealthy, eastern family history somehow inadvertently attached to my life," he says with a laugh.

The pattern continues. Davis is now CIO of Rockefeller & Co., founded in 1892 by John D. Rockefeller Sr. to manage his oil money and interests. Today Rock & Co. employs 150 people and serves as investment manager for wealthy families and individuals, endowments, foundations, and philanthropies. Davis oversees the investment functions of portfolio managers, investment analysts, economists, and bond managers whose job it is to keep the money multiplying.

In the U.S., and worldwide, the responsibility of investing in today's markets is difficult—even for Davis, who left companies like PanAgora Asset Management, eight times richer in the four years he served as portfolio manager in international investments.

Over the years, he has developed an investment specialty in international equities and currencies, particularly in emerging markets. On the day of this interview, for example, he was on the phone with clients in Saudi Arabia discussing their allocation to stocks, the situation in Iraq, and "whether they should be shifting out of the US to Euros." While most investors with Rock & Co. are U.S. based, a significant foreign faction exists.

"I had no intention of getting into international business," Davis reminisces. "In class, I would listen to Dewey Daane, a wonderful professor, and think: Gee, this is really interesting, but can I ever get into this? But my degree did open the door."

Additionally, he credits his experience hosting a jazz show for Vanderbilt's radio station and his job programming films for Sarratt Cinema for some of his success. "Watching a multitude of foreign films helped me to develop sensitivity to

(Continued on page 52)

Lifelong Alumni Career Services

STEVE GREEN

Suzanne Scott-Trammell critiques a resume for Scott Davis, E'02, one of the many career services now available to alums.

Looking to change jobs or switch careers? Alumni have a powerful new tool to assist in this process. Owen now offers free lifelong career resources that allow alumni to search job postings for experienced MBAs, post and store resumes online, access online guides detailing specific companies and industries, review online professional career topics and services, and obtain one-on-one career counseling and resume services. The OwenNet site also has financial reports and links to business publications to enable you to stay abreast of current business conditions and maintain your career marketability.

In addition, alums can obtain Owen's discounted rate for such premium services as CareerLeader, one of the most widely used career tools that measures candidates' interests, abilities, and values to match them with potential careers.

Since the program launched in January, more than 500 alumni have signed up for one or more of these services. For more information, log onto http://mba.vanderbilt.edu/alumdev/career.cfm.

Got the *Edge*?

If not, send your email address to start receiving the *Vanderbilt MBA Edge*, Owen's bimonthly electronic newsletter, for updates on alumni and schools news. *alum@owen.vanderbilt.edu*.

Janes

Lessons in Leadership

Michael Janes, '84, speaks admiringly of leaders—innovative individuals with whom he's worked, whom Janes describes as not only creating a company, but an entire industry: Fred Smith founder of Federal Express; Jim Barksdale, COO at the same company, who later became CEO of Netscape; and Steve Jobs co-founder and CEO of Apple.

But our story begins with Janes' first day at Vanderbilt, assembled with other students in the auditorium, listening to another man Janes admires—Dean Sam Richmond. "I was extremely impressed," Janes recalls. "I'll never forget his comment that 'Everything we teach in the next two years is going to be obsolete quickly. But we're here to provide you the framework to be an efficient absorber of experience.' In retrospect, the Dean was absolutely right."

Janes learned his lessons well. Graduating from Central Washington University with a B.S. in finance and a B.A. in economics, he carried those studies forward into a finance and accounting major at Owen. "My broad MBA education was immediately generalizable into other opportunities in quality improvement, new service development, international marketing, and even new businesses like electronic commerce," he points out. "The background gave me hooks on which to hang new data and make good decisions."

Janes spent his first year, post graduation, with an investment banking firm in Memphis. But with a "lot of Owen friends" at Federal Express, he soon joined that company. He began in entry-level marketing and never looked back. Through his 14 years at FedEx, Janes changed positions nearly every 18 months, holding such titles as manager of New Products for the U.S., director of Worldwide New Product Development, director of International Marketing, and VP of Electronic Commerce.

While Janes describes the FedEx opportunity as "serendipitous," it was his ability to apply established business principles to new situations that took him from finance and accounting to marketing. "The field was undergoing a transition from mass marketing to a direct, data-driven, more quantitative approach where my skills were relevant," he recalls. "Marketing interested me because of its direct reflection of a business. At day's end, you get direct feedback. Did the dogs eat the dog food?"

It's clear Janes loves the challenge and responsibility of innovative and fast-moving companies, and working with the pioneers who founded them. So in 1998, when an opportunity presented itself to work with the passionate team at Apple Computer as VP of Electronic Commerce, and wanting to return to the West coast, Janes and his family jumped at the chance. Today he serves as VP of the Online Worldwide Apple Store.

Unshaken by cycles in the IT industry, Janes keeps his attention on the business basics of creating products and services of value to the customer at prices that allow a company to likewise profit. "The fundamentals of business remain the same," he reminds. "Only now, the cycles of change are faster." He appears to be at full stride in the ongoing, break-neck race of improve and innovate. "There is no finish line."

—Carol Wissmann

Camp $tart-Up

Now that we have completed our MBAs, we have a good idea of what it takes to start and run a company. How many of us, however, could have thought the process through as teenagers?

Last summer, I worked as a counselor at Camp $tart-Up in Fairfield, Connecticut, on the campus of Sacred Heart University. With another counselor, I taught 11 teenage girls about marketing, finance, accounting, and sales, among other business topics. At the end of the 12-day session, two groups presented business plans to a large audience of family, local media, and women entrepreneurs.

The girls, ranging from 13 to 17, wanted to learn about business, although few knew what business really entailed when they arrived. In addition to business basics, the curriculum also included time management, ethics, and sales presentations. The girls spent several hours each day in a classroom, and in group meetings, where they worked to develop a feasible business plan from the ground up.

The groups started by assigning company roles: president, VP of marketing, etc. In my group, the girls decided to develop a business plan for a summer camp. Because they didn't need a VP of engineering, Rebecca ended up with a title worthy of the 1990s…VP of creative possibilities. The groups worked to define target segments, build a budget, and conduct market research to determine the needs of their future customers. My group struggled with the need to provide entertainment to 260 campers, while the other group tried to fit into the crowded teen apparel world with custom-made clothing.

Between group meetings and classroom sessions, we visited local women entrepreneurs to learn how they started their businesses. We went to a bank to find out how to obtain a small business loan, and even took a day to go into New York City. After all, you can't work all the time!

JEAN LAISE

Campers at a woman-owned physical therapy center.

I wanted to participate in the camp because I thought teaching the next generation of business leaders would be a great capstone to my Owen education. As I worked to define 'equity' to the girls, I became more familiar with the topics myself. After all, conventional wisdom says the best way to learn something is to teach it. We take a lot of knowledge for granted at Owen, but I could not do that with these girls and had to pare each concept to its core. At the same time, I was able to mentor them and help them understand that they could start their own businesses, of any size.

It is our responsibility to guide the generations that follow us. Certainly we feel some pressure to help current Owen students in their job searches, but it goes beyond that. Teaching these amazing girls, from diverse backgrounds, that they each had the potential to be successful in business reinvigorated my own passion for business. —*Kimberly Powell*

JEAN LAISE

Powell, top, and one of the campers.

Kimberly Powell, a 2002 Owen graduate, is database marketing manager for United Way of Metropolitan Nashville.

class ACTS

ALUM profile

Rebuilding From Ground Zero

Like many New Yorkers on that fateful September 11 morning, Amy Ryan, '86, FVP Prudential Securities, Inc., watched in horror as the second plane flew into the World Trade Center. Stuck in a cab in standstill traffic on the Brooklyn Bridge, her thoughts hung on her clients and friends housed in the WTC and how they would get out alive. Unfortunately, many didn't.

What she didn't realize until that night was that her former employer, Fred Alger Management, was now also housed on the 93rd floor of One World Trade Center, just two floors below where the first plane hit. In the next few days, it was confirmed that all 36 of the 55 Alger employees in the office that day, including David Alger, its charismatic CEO, perished in the attack.

Before the month was out, Ryan resigned her position with Prudential, and like a handful of other Alger alumni, returned to the firm to help in the rebuilding process. "I'm back to stay," she said in a recent phone interview. "It is good to be back home."

Ryan, like many others who have passed through Alger's ranks, had remained loyal to the unusually close-knit company through the years. "They gave me an opportunity," she said in a *Newsday* article last fall. "When you look like you are 14 and are trying to get a job on Wall Street, not very many people would give you that opportunity."

Ryan

Straight out of Vanderbilt, with her BS/MBA degree, and 21 years old, she worked as an accountant for Arthur Young in Chicago for a year before heading to New York to work for Alger. During her six years there, she rose from research associate to senior analyst reporting to Fred Alger.

Wanting to move to the sell side of the business, she switched to Prudential in 1992, where she covered the specialty retail sector, rising to senior retail trade analyst and first vice president. There, she twice received the *Wall Street Journal* All-Star Award for stock picking and once for earnings estimate accuracy, and often was featured on CNBC, CNN*fn*, Bloomberg television, and in the print media.

But when the chance came to help Alger regain its footing, she didn't hesitate. The rebuilding was easier than most might think, she said, because Fred Alger, after the 1993 WTC bombing, worried that more terrorism might be on the horizon and opened a facility in Morristown, New Jersey, where everything was backed up, but which sat idle for nine years. "When the offices were destroyed, he still had an intact facility, to which we commuted for six months."

Through it all, Fred Alger made the transition easy, coming out of retirement to retake the reins of the company he had founded and handed over to his younger brother, she said. "It couldn't have happened without him. He is very strong. You have to admire someone who is such a good role model."

Some feared that clients would bale on Alger after the attack, "but almost all of the clients we had in September '01, we have now." On top of the tragedy, Alger had it doubly hard in 2002 because of its focus on investment in rapidly growing companies and the downturn in the economy. "But the future is only sure to get brighter with the amount of money on the sidelines waiting to be invested in the market and used by corporations," she says.

—*Beth Matter*

class ACTS

Lights! Camera! Action!

Alums were caught on tape at the Hollywood-themed Homecoming/Reunion ExtraVUganza last fall.

The event, combining Homecoming and Reunion for the first time, cast alums in leading roles, featuring those from classes ending in 2 and 7 enjoying numerous activities: a cyber café (hands-on demonstration of wireless technology and student-guided tour of Management Hall's latest renovations); Dean's Cocktail Reception; and a dinner/dance under the Big Tent.

Those reuniting also had the chance to participate in wider University events including a campus walking tour, golf tournament, and numerous educational events, including "The Challenges of Ethics in an Ever-Changing Business Environment," led by Bart Victor, Owen's Cal Turner Professor of Moral Leadership.

This year's sequel is October 10-11, with classes ending in 3 and 8 as the stars. To help organize a class party or to find out about scheduled activities, log onto *http://mba.vanderbilt.edu/dar/reunion2003/savedate03.cfm*.

1). *Dave, '97, and Nancy Windley with Dean Bill Christie.* **2).** *Amy Jorgensen Conlee chaired her Class of '77 Reunion.* **3).** *Enjoying Reunion fun: left to right, sitting: Christopher Smith, '97, Jeff Whitney, '97, Merrie Whitney; standing: Staci Lieuallen, Dennis Lieuallen, '97, Rita Smith, Bethany Malakelis, Jim Malakelis, '97, Nancy Windley, and David Windley, '97.* **4).** *Amy, Allison, and Manuel Delgado, '97, enjoy dinner and music under the Big Tent.* **5).** *EMBA alums gathered for dinner and a program on Tennessee's economic development during ExtraVUganza at Loew's Vanderbilt Hotel last year, thanks to the EMBA 2002 class gift. The class wanted to benefit both alumni and the School by establishing an annual alumni networking event.* **6).** *Bill and Kelly Christie with Yariv Lipshitz and Stuart Sechrist, both class of '97.* **7).** *Larry Kugelman and David Jensen, from Owen's first graduating class in 1972.* **8).** *Students were on hand to demonstrate Owen's wireless technology to alumni during the Cyber Café.*

David Kloeppel—2003 Distinguished Young Alumnus

David Kloeppel, '96, EVP and CFO for Gaylord Entertainment, is Owen's newest Distinguished Young Alumnus, it was announced at Commencement. Kloeppel graduated with honors and went to New York City, where he worked for Deutsche Bank as an investment banker before returning to Nashville and Gaylord. Kloeppel has strengthened the relationship between Owen and Gaylord by encouraging the company to hire Owen students and to establish two Gaylord scholarships at the School. He and his wife, Ann, '96, are also involved as alumni: Ann serves on the Owen Alumni Association Board of Directors, and David serves on Owen's Campaign Steering Committee.

Futures *continued from page 45*

what other cultures might be thinking," he says.

His radio experience proved particularly valuable in his earlier position as CIO for a division of State Street Global Advisors. "Here was a company that became the fifth largest investment manager in the world, but no one knew they existed," he recalls. So Davis became a commentator on CNN, NBC, and "Wall Street Week," helping to bring a higher profile to the firm.

"I would have been surprised my second year at Vanderbilt to know that I ended up here," Davis says. But maybe he really wouldn't have been surprised. "You use your senses, and the world shows you how it all comes together. As Dr. Seuss says, 'Oh the places you will go.' " —*Carol Wissmann*

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