



By LISA A. DUBOIS

# A Good Yarn

*Josué Gomes da Silva, MBA '89, Takes Brazilian Giant Coteminas to International Stage*

Over the years, a number of MBA candidates have enrolled at the Owen Graduate School of Management with the ultimate goal of one day assuming responsibility for their family businesses. When Josué Gomes da Silva arrived at Vanderbilt that was his plan, too. Unlike his fellow classmates, however, Gomes da Silva was faced with additional, unique obstacles.

*Photograph By* DANIEL DUBOIS

When he received his Owen diploma in 1989, the family business, Coteminas, was a \$50 million textile fabric manufacturer headquartered in Brazil. Like several South American countries in the late 20th century, Brazil was undergoing a major economic shift and was opening its borders to world trade. Meanwhile, the North American textile industry was scaling back, just as China and other Asian countries were infusing their textile enterprises with generous government subsidies in order to clinch shares in the global marketplace. Brazilian textiles were counterpoised between either hurtling into the fray as a formidable international contender, or else withering away in the chaos.

The stakes in such a volatile arena were enormous. Gomes da Silva, who was only twenty-something at the time, was soon making business decisions that would affect not only Coteminas, but also a significant slice of South America's textile industry.

Fortunately, with the help of his Owen education, Josué Gomes da Silva was up to the challenge. When he came to Nashville in 1987, he had already earned dual graduate degrees in his native country in civil engineering and law, so he had a firm grasp on technology and was unafraid to make complex judgment calls. Once at Owen, he overloaded his schedule with classes, ranging from operations to marketing, finance, and accounting.

"I tried to be as broad as possible and took many more credits than was necessary to get my degree," he says, in a phone interview during a brief intercontinental stopover in New York City. "I was trying to broaden my scope, because I knew I would eventually assume a general management position in the company when I went back."

Joseph Blackburn, professor and now senior associate dean at the school, taught Gomes da Silva in his operations course, and was impressed by the young man's acute long-term strategic view. "Josué realized that to make Coteminas bigger he would have to play on the world stage," Blackburn says. "His vision was to make it a global company. Few students come to us with such a broad, long-range view of business."

Josué's father José Alencar Gomes da Silva served as a role model to his son. The 11th child born into a family of 15 children, José Alencar left home at the age of 14 to make his way in the world and send money home to his family. He found work as a salesman in a small store, and spent his nights in a local hotel. José Alencar cut a deal with the owner, who allowed him to eat, wash his clothes, and to sleep in the hotel vestibule, for a reduced rate that he could afford with his earnings at the retail store. By the age of 18, he had saved enough money to open a small haberdashery in the city of Caratinga. After saving his earnings for

nearly two decades, José Alencar and a partner founded Coteminas in 1967. Through the decades and with Josue's hard work, Coteminas has become the largest spinning/weaving company in Brazil, converting South American raw cotton into yarn and fabrics for clothing and such household items as sheets, towels, and linens. Today, Coteminas oversees 15 factories spread throughout Brazil and one in Argentina.

A year after Josué Gomes da Silva returned to Brazil with MBA in hand, he put his Owen School credentials to use after being appointed the chief financial officer of Coteminas. Five years later, his father decided the company was in good enough shape that he could step away from it and enter politics, running as a pro-business candidate. Josué was named chairman and chief operating officer of Coteminas, and in 2002, José Alencar was elected vice president of the Republic of Brazil, serving alongside President Luiz Inacio Lula da Silva.

### Increasing Manufacturing Capacity

One of Josué Gomes da Silva's first tasks as the captain of the family corporation was to analyze, in detail, the world textile situation. He and several other executives traversed the globe, visiting factories in Asia, North America, South America, Africa, and Eastern Europe. Gomes da Silva concluded that Brazil had a com-

petitive edge in some important areas. First, because of the temperate climate in its agricultural regions, Brazilian cotton could be both high quality and eco-friendly. (In other words, the methods for farming the cotton need not to pull disproportionately from water reservoirs,



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being mostly rain fed and using renewable fuels for the transportation of the crops.). Also, energy is a crucial cost component of the textile industry, and Brazil's energy matrix, or cost-to-use ratio, was favorable, meaning that he could access the energy sources—electricity, renewable and fossil fuels, petroleum, natural gases, etc.—he'd need for future development. Finally, the cost of labor, while higher than in India, China, and Malaysia, for example, was much lower than in North America and Europe. Therefore, labor costs wouldn't throw Coteminas out of the mix.

Given all these encouraging factors,

Gomes da Silva realized that his major hurdle was one of scale. He recognized that the most productive textile corporations in the United States were several times larger than Coteminas. To become a player, therefore, he would need to embark on an aggressive plan of growth. Almost immediately, he devised a three-

phased strategy to bulk up Coteminas' revenues—first, increase manufacturing capacity; second, integrate forward; and third, integrate internationally.

Through the decades, Coteminas executives had become expert at building plants with great efficiency. Under Josué's guidance, they began taking over smaller, inefficient operations in small communities, infusing them with high technology manufacturing equipment and converting them into streamlined operations. Once these factories were running at full speed, Gomes da Silva could drop the prices of the products they manufactured, forcing competitors

to bow out of the game.

For example, Gomes da Silva went into the south region of Brazil, purchased a 100-year old plant and completely modernized it, returning it to a state of productivity and efficiency. He now has third-generation mill workers employed there.

He says, "I got letters from old, long-time employees thanking me, because the plant was having a rebirth and so was the community. And it gave them a great sense of pride that someone would come in and believe they were capable."

### Integrating Forward

By the late 1990s, Coteminas stood tall as one of few successful textile manufacturers left in Brazil. All along, Josué Gomes da Silva had continued to invest his profits back into the company, and he was ready to begin the second phase of his plan—integrating forward. He knew he could not compete internation-

ally until he had some control over the finished home textile product lines. Although Coteminas was by then churning out massive amounts of yarns and fabrics, the Brazilian producers who could convert those fabrics into t-shirts, bath ensembles, and bedspreads were too small to handle additional volume,

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nor were they generating enough revenue to pay for the expensive technology that would help them increase their capacity. Josué realized that Coteminas' rapid growth in Brazilian manufacturing was actually weakening the product-side link in the chain.

He began purchasing companies that output the highest quality and best-known brands made in Brazil and Argentina and tapping into the expertise of their producers. That move, he admits, was a huge step. Almost overnight,

Coteminas evolved from a commodity producer into a consumer goods producer. The volume of Brazilian home textile products increased dramatically, and now the major South American brands owned by Coteminas include Artex, Santista, Calfat, Arco Iris, Magicolor, and Attitude.

By 2000, having accomplished the first two stages of his strategic plan, Josué Gomes da Silva was ready to devote his attention to "phase three," establishing a presence in the interna-

tional export market. Through various business dealings in the raw materials manufacturing end of his company, he had already established professional relationships with several textile producers in the United States, many of which were located in the South. The United States textile industry had long been foundering since its earlier hey-day as the dominant global producer, undercut by cheap labor costs and subsidies from emerging nations in Asia.

### Merging Internationally

In January of 2006, Gomes da Silva entered a strategic alliance with Crandall Bowles, scion of Springs Industries, a 117-year old privately held home furnishings enterprise, headquartered in Fort Mill, South Carolina. Springs Industries supplies leading retailers with bed and bath ensembles, sheets, towels, rugs, blankets, and window treatments, marketed under the brands, Wamsutta, Springmaid, Regal, and Dundee. Gomes da Silva and Bowles have teamed up as co-CEOs of the consolidated Springs Global, Inc., with North American operations in the United States, Mexico, and Canada.

Given the increasing barriers to manufacturing in the United States, including costs related to wages, energy, and raw materials, Springs Industries had been outsourcing to other countries for some time. What Bowles desired, however, was for Springs to have a dynamic, synergistic base of operations both at home and abroad. For Gomes da Silva, Springs contributed ready-made expertise in planning, selling, merchandising, and marketing.

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Bowles explains, "We both have a personal investment in not just holding on to, but continuing to grow our family business. This was the only way for us to move forward. That's why we put this merger together. We figured we'd be a lot better off as one company, working together, planning together, and getting as much product as we could from Brazil, which in many areas is equally or more competitive in textile manufacturing than countries in the Far East. This merger has turned into a very good strategic move."

Says Gomes da Silva, "Our revenues last year were \$600 million, and the merger with Springs Industries brings us up to \$2.5 billion. We used to say at Coteminas that we wanted to have a 10 percent share of the world market in bedding and bath by the year 2010. It's 2006, and today we're at 7.5 percent, so we still have a lot to do."

Because many operations have been or will be transferred to overseas plants as a result of the merger, several manufacturing facilities in the Carolinas are being forced to close. "Most textile manufacturing has now moved out of the U.S.," states Blackburn. "Textiles have become too expensive to produce here."

Gomes da Silva says that this situation is true of many industries beyond textiles. "The United States is in a stage of development that is concentrating more in the knowledge-based industries," he explains. "Certainly, the part of the textile industry that is knowledge-based, such as design, merchandising, and marketing, will remain in the

U.S. That is the beauty of this merger. We now have a combination of outstanding assets in distribution, marketing, and design, together with very powerful manufacturing capabilities. We aren't closing all the facilities. Some will remain to respond to certain market demands faster, and we depend on those operations for logistical content. But we have to reduce our costs in other areas to remain competitive, so we are moving some operations overseas, as well."

From an artful business standpoint, the merger means Springs Global can offer an array of products, from opening price-point items to the highest price-point items, and can distribute them across a range of retailers from Target and Wal-Mart to Macy's and Bloomingdale's. Gomes da Silva believes that consumers have benefited from recent free trade and world trade policies, because people can still buy outstanding products at the low end of the price-points range.

"Each store in its own market niche offers tremendous alternatives to consumers. That is an amazing quality about the U.S.," he says. "I think there is no other place in the world where retailers are so efficient and are able to offer such good products to their customers. I consider it a privilege to be a supplier to all those retailers."

Wearing a separate, but related hat as the president of Brazil's Association of Textile and Garment Industry (ABIT), last year Gomes da Silva was able to convince the Brazilian government to pass, within the rules of the World Trade Organization to pass legislation forcing a

compromise with Chinese textile exporters. He successfully argued that in this period when South American countries are trying to overcome wobbly financial cycles, they have to be given a fighting chance to establish indigenous businesses without undue interference from Chinese imports. The WTO rules allow Brazil to apply safeguards on Chinese textile goods, but those domestic protections would last only up to the year 2009.

"This is a bilateral agreement. It helps those sectors that are the most endangered by huge increases in imports from China," he says. "It's not permanent, but it gives the sectors of the Brazilian textile and clothing industry most affected by China competition some time to grow."

Gomes da Silva now spends his days at a frenetic pace, traveling all over the world to implement the final phase of the strategic plan he formulated after graduating from business school. Meanwhile, he has been appointed to the Owen School's newly formed Board of Visitors advisory council, the only South American member on the board. Dean Jim Bradford is hoping the board will assist the Owen faculty in setting strategy and direction for the school, which includes teaching, pursuing research, and responding to the global marketplace.

"That's where Josué and other individuals can engage," says Dean Bradford. "Looking at the world stage of competition gives him a unique perspective. He's built his business with great vision and with rigor. I don't think the competition has been able to withstand his onslaught. I think he learned from his graduate business education that if you're going to build an organization, you build a world-class, high-quality product and you do it with vigor. And that's exactly what he did." **VB**



# Corporate Bailouts

Owen Professors Measure the Value of Political Connections

**T**o the tune of 450 million euros, the French government approves “rescue aid” to Groupe Bull SA, a technology company that has run into financial difficulty.

In Canada not long after September 11, 2001, the federal cabinet approves \$200 million in emergency financial aid to that country’s struggling airline industry.

In Thailand in 2002, the government provides troubled Bangchak Petroleum with a \$140 million “capital injection.”

In Malaysia, the purchase of shipping assets belonging to a debt-laden firm, Konsortium Perkapalan, is viewed so suspiciously by the market that the country’s finance minister is moved to deny publicly that the transaction is a bailout. Fueling the doubts: Konsortium is controlled by the prime minister’s son.



GETTY IMAGE

All of these deals, spread across three continents over a six-year span, have one thing in common: They involved government aid bestowed on companies with powerful political connections.

The idea that companies with friends in high places would receive more aid than similarly situated businesses lacking such connections may not seem surprising to anyone familiar with stories of K Street lobbyists in Washington, D.C. But until Professors Mara Faccio and Ronald Masulis, both finance faculty at the Owen Graduate School of Management, and John J. McConnell of Purdue set out to examine the dynamics of corporate

bailouts in a more systematic way, researchers had not probed much beyond the anecdotal evidence that connections translate into opened checkbooks.

Faccio, Masulis, and McConnell carefully studied which companies are—and are not—receiving public handouts when they encounter financial trouble. Do “connected” firms really reap the lion’s share, or is it more of a myth? They also asked a number of other questions. They wondered, for example, who ultimately benefits from bailouts by government. What effect does this largess have upon the performance of the recipient companies? What effect, if any, do global

lenders such as the World Bank and International Monetary Fund, exert upon these transactions? The professors’ jointly authored research paper, “Political Connections and Corporate Bailouts,” sheds new light on all of these questions.

Faccio, Masulis, and McConnell studied 458 politically connected firms, along with a set of matching peer firms, over a six-year period from 1997 through 2002. They examined 71 bailouts in 35 countries, from the United States and Canada to Western and Eastern Europe to “Asian Tigers” such as Thailand, Malaysia, and Taiwan. Relying on media reports on bailouts, they looked into companies they

defined as “politically connected” (one of its top officers was a head of state, government minister or—like Italian senator Giovanni Agnelli, chairman of the board of IFI, the holding company for Fiat—a member of the national parliament). They also scrutinized firms with “indirect connections” and “close relationships” that involve family or friendship ties between top officers and top government officials (In the case of the Malaysian shipping firm noted above, for example, board chairman Mokhzani Mahatir is the son of Malaysia’s prime minister.). Fifty-one of the 71 bailouts involved connected companies; the other 20 involved companies without close connections.

Through their research, they found a notable correlation between such connections, both direct and indirect, and the likelihood that the connected firm would receive financial assistance. In fact, companies with connections were almost three times as likely to receive government assistance—in the form of direct cash payments, purchases of newly issued debt or equity, government-subsidized loans, loan guarantees, tax relief tied to the bailout, and government purchases of company assets—than their unconnected peers. In addition, connected firms were bailed out more often than those without high-level connections; several of these com-

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panies received assistance more than once during the six-year period the researchers studied.

Connected firms also on average borrowed more money, more often, from private sources than their counterparts without good friends in high places. And after the bailouts occurred, the connected

companies actually increased their leverage ratios, winding up with even larger debt over a two-year span. In contrast, non-connected firms that received assistance on average experienced declining leverage ratios after their bailouts.

### The Risk Factor

These findings, in turn, raise another set of questions: Why would lenders be willing to extend credit to companies whose financial problems suggested they were poor credit risks? And why would they offer these loans—as the researchers found they frequently did—at terms no more unfavorable than they extended to healthy companies?

Though the research did not seek to resolve these questions, the findings were suggestive nonetheless. “If creditors expect that a risky or distressed company is likely to receive a bailout,” says Faccio, “they may be more willing to extend credit on terms more favorable to that company. They anticipate that, even if the firm defaults, the

government will repay the loan. So lending to these companies effectively becomes almost risk-free.”

The researchers, who limited their study to reports on corporate bailouts available in English-language media, found that government assistance encompassed a wide variety of industries,



**Mara Faccio, associate professor in finance, is earning international recognition for her work in political connections. She received early tenure this year.**

countries, governments, and economies. They included highly developed nations, such as the U.S. and Germany, as well as less developed countries such as Indonesia. They include countries ranging in GDP per capita from Luxembourg (\$33,450) to India (\$1,939). They include countries with very different measured degrees of corruption, ranging from Denmark at the low end (as measured by the Kaufman Index) to Indonesia. And the connected firms in these countries come from a broad array of industries, including consumer durable goods, construction, financial services, basic industry, transportation, utilities, textiles, and petroleum.

Ten of the 35 countries represented had at least 10 politically connected firms: the UK, Malaysia, Thailand, Japan,

Indonesia, Italy, Singapore, France, the United States, and Germany. However, neither the number of connected firms in a country nor the country’s level of corruption bore a consistent relationship to the likelihood of receiving a bailout. For example, several of the nations within the study that ranked highest on the corruption index—Russia (6.23), Indonesia (6.60), Thailand (5.33), and the Philippines (5.46)—also had among the highest percentages of connected companies that received bailouts. However, in other high-corruption countries such as India (5.61), Mexico (5.55), and Turkey (5.70), none of the connected companies in distress received assistance. In fact, in India and Germany, connected firms were actually *less* likely to receive bailouts than those with close ties to the government. Meanwhile, in relatively transparent Australia, both of the firms with political connections were bailout recipients. While Japan and Malaysia rank similarly in terms of corruption, 17 of the 81 connected firms in the latter received bailouts, compared to none of the 30 connected Japanese firms in the study.

### The World Bank/IMF Connection

In countries that received aid from the World Bank or IMF, government bailouts were much more likely to occur. In fact, both the connected and unconnected firms in these countries were roughly four times as likely to receive bailouts as were even the well connected companies in nations that did not receive any funds from the international lending institutions.

Perhaps, suggests Faccio, the strong correlation between government bailouts and IMF/World Bank aid is simply a reflection of the larger economic difficulties within those nations that led to foreign financial intervention in the first place. In these countries, after all, many companies are likely to be distressed—thereby representing a cause for foreign

aid rather than an effect of it.

“However,” Faccio says, “what we found disturbing is that, when aid was given, most of that money went to connected firms rather than being more equally split among all of the country’s

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distressed companies. This finding bolsters a frequent criticism of the World Bank and IMF: that the aid is largely being used merely for the benefit of the family and friends of politicians within the recipient countries.”

Most significant of all, Faccio, Masulis, and McConnell found that the well connected firms that were bailed out were less likely than their non-connected peers to use their financial infusions to good effect. Both before and after their bailouts, the companies with connections underperformed matching firms in similar circumstances. By the second year following the bailouts, the politically connected companies in the study recorded an industry-adjusted mean return on assets of –6.19 percent and a median of –3.84 percent. Meanwhile, their non-connected firms that received bailouts experienced mean and median industry-adjusted ROAs of +0.43% and +0.74%, respectively. The non-connected firms also enjoyed better debt positions—suggesting that their superior financial performance enabled them to repay portions of their loans sooner.

### Rational, But Poor Investments

Does the poor performance of politically connected companies make bailouts irrational? Not necessarily, Faccio suggests. Though the researchers acknowledge that their study did not pinpoint the ultimate beneficiaries of the system of political connections and bailouts, Faccio notes that

politicians, who may be able to extract all or most of the rents from borrowers and lenders, could be the biggest winners. But shareholders also win when their bailed-out companies are able to borrow on favorable terms that the market otherwise

would not have bestowed. And private creditors who lend to risky companies can benefit if tacit understandings with governments mean that loans are essentially risk-free.

Especially with large companies—and the researchers found that connected companies that received bailouts were significantly larger than their unconnected counterparts—government assistance may reflect politicians’ desire to “buy votes.” Leaders may also regard bailouts of certain companies, as in the cases of Air Canada and U.S.-based Lockheed-Martin, as important for the economy or key industries such as transportation and defense.

However rational the motivations of politicians, shareholders, and lenders might be, however, this research makes at least one conclusion almost inescapable: From a market perspective, bailouts of politically connected companies are poor investments. “Assuming that capital markets channel funds to their highest value uses,” write Faccio, Masulis, and McConnell, “and that firms receiving bailouts are firms to which other capital market participants are unwilling to provide capital, the implication is that bailouts of connected firms are even more wasteful than bailouts in general. ...[And] to the extent that bailouts of politically connected firms undermine the role of capital markets in allocating capital, they are likely to have an adverse impact on economic growth.”

**VB**



Stuart Scott, EMBA'94, CIO and corporate vice president of Microsoft: "CIOs are more and more a part of the visionary discussion, understanding where you reposition the business to be successful."

# CIO The Dynamic

Make Room at the Executive Table, Because Chief Information Officers Need a Chair of Their Own

By SHARON H. FITZGERALD

**“***I* *t is a very sad thing that nowadays there is so little useless information.”*  
While the dry-witted, Irish-born Oscar Wilde penned that sentence more than a century ago, it could certainly be used today as an argument in support of job security for chief information officers. The problem, however, is defining just what chief information officers are and what they do. Just ask one. He or she will acknowledge that the job is dynamic and flexible, based not only on ever-changing technology but ever-changing demands.

“From the CIO’s perspective, we have a lot on our plate. We have a lot of stakeholders, and we have a lot of commitments,” says Noel Williams, a 1977 Vanderbilt engineering graduate, and CIO and senior vice president of HCA Inc., the Nashville-based health care giant with 182 hospitals and 94 outpatient surgery centers. “But we’re also the one place where it all comes together across business lines. In many ways, we’re sort of the glue. It’s challenging from the standpoint of meeting multiple agendas, helping balance priorities, and being a facilitator of those dialogues, yet that’s what a lot of CIOs face.”

Hmmm. So *chief information officer* is more than a fancy title for the computer geek? You bet. “Especially at HCA, there is rarely an initiative that doesn’t have an IT (information technology) component to it,” says Williams, adding that a CIO’s technical knowledge must be coupled with business savvy.

Robert Greenberg concurs. He is CIO and vice president for Nissan North America, which in 2006 relocated its headquarters from near Los Angeles to Nashville. “Over probably the last 20 years, the CIO role has evolved from back-office into one that is much more business-related and, in some cases, change-agent related and, in some cases, facilitation-related,” he says. “But in all cases, it’s about how to help drive and/or support the business.”

According to *CIO* magazine’s Executive Research Center, the number of CIOs in corporate America has “increased dramatically” in the last two decades, and the role “is shifting from the technical business of data processing to the more broadly conceived job of ‘knowledge management.’ So important has managing knowledge become to the success of a company that harnessing knowledge may be a corporation’s most pressing challenge—and at the very heart of the CIO’s evolving role.” In other words, a



Noel Williams, E’77: “To be an effective CIO, you need leadership skills and you have to realize that early on.”

CIO isn’t just an IT director in a suit (and with a bigger budget); both have their critical parts to play.

“CIOs have traditionally been selected based on their being the best technologists or best IT practitioners. It’s not unusual in any organization to take your best practitioners and promote them into leadership positions. IT was really viewed as a cost parameter, so being able to manage costs and productivity was an important aspect of a CIO,” explains Stuart L. Scott, EMBA’94, CIO and corporate vice president of Microsoft Corp. “Today, CIOs are more and more a part of the visionary discussion, understanding where you reposition the business to be successful.”

Scott, a Six Sigma black belt, was on the Vanderbilt University campus in September as an Owen Distinguished Speaker. In his talk, he noted that in general, 35 percent of a U.S. company’s capital expenditures were on IT in 2000 versus 0 percent in 1970. Yet 45 percent of today’s productivity comes from IT investments. “What that means is we’re still not spending enough on IT. ... We still don’t have leadership in American companies today that recognizes the value of IT investments, because they’re still investing 65 percent of their budget and receiving only 55 percent of the benefit from that investment,” he says.

And that’s where a CIO can make a

mark. “CIOs are there at the table, but they need to take advantage of being there by contributing. From what I’ve seen, the unique opportunity that a CIO has at the table is in understanding the technology and understanding capabilities technology will allow,” Scott says.

#### The Health-Care Space

Williams joined HCA in 1979 and, with the exception of a two-year break, has been with the company since. “I sort of grew up here,” she recalls. Initially, the small department outsourced its data processing, but the job was brought in-house in 1986. Williams is responsible for the day-to-day operations of a main data center and seven regional data centers, as well as the proprietary telecommunications network that pulls it all together. And then there’s “information security, all applications development, implementations and deployment, as well as our IT strategy,” she says.

“I work hard on business alignment to make sure we’re not out chasing the latest, greatest technology for technology’s sake, but in fact enabling the business strategy of the company,” she says. “Our strategy is to take proven technologies and use them in innovative ways to enable our business strategy. As opposed to innovating with new technology, we innovative with proven technology.”

In an environment where the customer is rarely the payer, and bad debt as a result of treating the uninsured and underinsured is commonplace, Williams acknowledges that improving company efficiency and cutting costs, thus maximizing shareholder value, are high priority. Yet projects introducing technology advances to improve patient care are the ones that remind her why she’s there.

Case in point is HCA’s medication-dispensing system called eMAR (electronic medication-administration record), which became the operating standard in all HCA hospitals in 2005. “Our

goal was to get the right medicine to the right patient at the right time at the right dosage,” Williams says. Nurses scan the barcode on their badge, the barcode on the medication, and the barcode on the patient’s wrist before dispensing the drug. As the system rolled out, Williams began hearing anecdotes from doctors and nurses about eMAR’s effectiveness, including one story from a neonatal intensive-care unit where one of the tiniest of patients would have received the wrong medication if eMAR hadn’t alerted the nurse. “So they caught it and saved a life,” Williams says.

“That was one of our more exciting projects, because that was an implementation in which we saw benefits immediately. In a lot of cases, it takes months if not years to track and capture the benefits of a system that you might install,” she says. “We feel like we really made a difference in patient care and in patients’ lives.” From start to finish, eMAR was a reality in just five years, and HCA has documented a reduction in errors and a reduction in malpractice claims.

Such a roll-out certainly takes technical expertise, but it also takes strategic direction. “To be an effective CIO, you need leadership skills, and I think you have to recognize that early on,” Williams says.

#### The Academic Space

“I don’t set growth strategies. I respond to the needs of the business.” That’s how Matthew J. Hall, assistant vice chancellor for Information Technology Services at Vanderbilt University, sees his job, one of ensuring that all the campus’ dynamic populations have the information technology necessary to their jobs. Yet as the associate chief information architect for Enterprise Infrastructure, he’s also responsible for “a loosely defined architecture process where we’re trying to grow Vanderbilt’s IT environment through consensus and

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shared understanding,” he says.

Hall acknowledges that part of his assignment is to make sure there’s a dial tone when someone picks up a phone, but he also sees himself as a resource. “We need to be at the table to understand the mission and the direction of the vectors of the businesses and organizations that we support. We need to be involved in that dialogue so that we meet requirements,” he says.

Hall estimates that his staff of more than 100 employees spends about 70 percent of its time maintaining existing platforms and the rest “introducing various new platforms to support business-driven growth, university-driven growth, or clinically driven growth in the organization.”

Hall sees network computing as “largely a commodity play,” transporting a “package” from point A to point B. “It’s really just a matter of scale and how many packages people are shipping. We have an infrastructure that’s financed very well by the institution that can meet all the needs without a lot of complexity in the organization,” he says.

Decentralization, he adds, is a natural result of connected and online-hosted services. “My hypothesis is that central information technology organizations as we know them today are fairly dead. Things morph,” Hall says. “There are many people who were brought up mid-career in the ’90s who want to continue to try to centrally control IT. They continue to grasp that sand in their hand, but it’s going to slip through their fingers.”

And that’s another challenge of CIOs today.

#### The Manufacturing Space

Greenberg sees where Hall is coming from. With Nissan facilities scattered across the globe, connectivity, not centralization, is paramount. “When we build a car, the sequencing of the arrival of the engine to the line is tagged one-for-one to the car that’s being built,” he explains.

“The engine is manufactured in our Decherd [Tennessee] plant and then arrives in the right sequence to go into the car as it’s moving down the line.” Of course, that’s arranged via online connections and “interface points” with manufacturing and supply-chain organizations, he says.

Being a CIO in manufacturing poses challenges that CIOs in other environments don’t face. For example, critical to the success of the company is supply-chain management. “There’s the need for us to provide support to the manufacturing environment and the logistics both inbound and outbound and all the aspects of supply chain in between, as well as plant optimization,” says Greenberg, who joined Nissan in 2004, having been CIO of Exxon Chemical Asia Pacific and director of information technology for Dell Computer.

Improving efficiency and effectiveness are top tasks of Greenberg’s organization, yet he adds that the role also “is very much around value generation, and value generation can in fact take two forms. One is absolute cost reduction either within the IT organization or within the business organizations through IT enablement. It can very well also be about incremental revenue generation.” He says IT at Nissan is “well along the path of being a strategic-value contributor, and I’m very pleased with the progress that we’ve made toward that end.”

The fact that Greenberg is charting that path is an illustration of how the career of the CIO has evolved. “The leadership skills and the business skills are far more important than the technology skills,” he says. “I would perhaps go so far as to say that my technology skills are not what they were many years ago, but my leadership and business skills hopefully have grown in the intervening period as well. Those skills together with relationship-building skills are the primary skill set needed by a CIO today.”

#### The Technology Space

“It’s interesting being the IT guy inside an IT company,” quips Scott of Microsoft, which is a \$40 billion company with about 90,000 employees. “I think I’ve got the best job in the world. Other people might say I probably have the worst job in the world, because out of all those employees, about 95 percent of them think they know how to do my job better than I do, and they’re willing to tell me about it.” Scott’s budget is \$1.4 billion with 7,000 people under his purview. He joined Microsoft in 2005 after 17 years with General Electric, where he served as CIO for multiple GE divisions.

“Both companies are very successful, but in different markets and with very different approaches,” Scott says. “As the CIO within GE, a lot of my focus was on driving cost-efficiencies to drive profitability, not only for my own organization but for the business. It was helping the business be successful through operational excellence and cost-effectiveness. In Microsoft, it’s those things, but it’s also about helping revenue generation by creating better customer solutions.” His organization visits 4,200 customers annually and uses Microsoft technology at least a year before it’s commercially released.

Scott estimates that 25 percent of his budget goes to being the early adopter of Microsoft technologies. “Different technology leaders within our organization, including me, have to sign off before a product can be released to the marketplace. We’re part of that quality review and functional review process,” he says. And thus a part of strategic business decisions.

In short, Scott says a CIO’s mission today is “positioning the company for future success by understanding where technology is going.” Thus, he explains, the traits of a CIO have transformed from tactician, IT practitioner, and cost cutter to visionary, business strategist,



**Matt Hall, assistant vice chancellor for Information Technology Services at Vanderbilt: “CIOs need to be at the table to understand the mission and direction of the vectors of the businesses and organizations that we support.”**

and net-income adder. Also morphing is the CIO role, from one about the technology and managing resources to one about the business and enabling innovation. The CIO is an executive leader rather than executive support, he says, using information to create a competitive advantage. That can be a trial, he continues, considering that IT is a long-term investment that sometimes takes five years to make an impact. “So, it’s not about having the strategy of the week or the strategy of the month,” he says.

“The day job, if you will, of a CIO has traditionally been organization man-

agement and resource allocation management and trying to gain executive support for what needs to happen in the company in terms of how to transform it,” he says. “The future is really about running the business, and no longer trying to get support from the executives on driving the strategy. It’s about being an executive at the table and articulating the value of what IT investments can do for your company in terms of getting the people capable and ready to achieve higher results and really amplifying their impact to the company. In the end, people are a company’s greatest asset.” **VB**



A photograph of four business professionals in a forest setting. A man in a dark suit and glasses sits on the left, writing in a notebook. A woman in a dark blazer sits behind him, also writing. A man in a light blue shirt stands behind her, leaning on a chair. A woman in a dark blazer sits on the right, writing in a notebook. They are gathered around a dark wooden table with a white mug and a blue mug. The background is a lush green forest with sunlight filtering through the trees.

# Casting a Wide Net

Corporate Social Responsibility Captures Attention of Owen and World Beyond

By YVONNE PARSONS POINDEXTER  
Photograph By DANIEL DUBOIS

Six hundred and forty-nine miles southwest of Nashville, in the green-hilled town of McKinney, Texas, a state-of-the-art wind turbine rises 146 feet in the air. Its three immense blades spin gracefully atop the tower, turning, turning again, even when the wind hardly blows. The turbine generates enough clean electricity to power hundreds of lights below. An environmentalist's dream machine? Maybe. But the real beauty of the powerful turbine is its placement: The energy-saving, emission-reducing turbine towers high above Wal-Mart.

**Having a Net Impact:** Christopher Jones, MBA'07, Karin Thul, MBA'07, Jeff Gowdy, MBA'06, Julie Sinton, MBA'07, and others in the Owen community pull together to make Owen's 2007 Net Impact Conference next fall a standout. Net Impact is an international organization whose goal is to use the power of business to make a positive net social, environmental, and economic impact. The conference is expected to attract more than 2,000 students and professionals.

The opening of Wal-Mart's "experimental" Super Center in McKinney last summer was big news, but the event probably raised fewer eyebrows at Vanderbilt's Owen Graduate School of Management than it did in most venues. Way before Wal-Mart's green-leaning headlines hit the *Wall Street Journal* and the *New York Times*, Owen students were already talking seriously about corporate social responsibility (CSR). And when Wal-Mart's CEO Lee Scott announced last September that the retailer was pioneering a zero-waste, renewable energy program, many Owen students had already benefited from a behind-the-scenes look at the company's plans.

Not only are more Owen students today interested in taking courses involving corporate social responsibility, they are benefiting from the executives the school brings to campus to talk about the value of CSR to their corporations. And more are also participating in the school's chapter of Net Impact, an international organization "whose mission is to improve the world by growing and strengthening a network of leaders who use the power of business to make a positive net social, environment, and economic impact," according to the Web site.

Owen's chapter is poised to make CSR even more integral to the Vanderbilt B-school experience. Thanks to the vision of Jeff Gowdy, MBA '06, second-year students Karin Thul, Chris Jones, Julie Sinton, and others, Owen is busy planning to host Net Impact's 2007 annual conference next fall.

Landing the conference is a coup for Vanderbilt. Previous conferences held at Harvard, Stanford, Columbia, Yale, and Northwestern, among others, lured speakers including former vice president Al Gore, Starbucks' Orin Smith, and



Barry Salzberg of Deloitte & Touche USA. Organizers at Owen expect about 2,000 students and professionals will attend the October event.

"It will help put us on the map of schools that take corporate social responsibility seriously," says Mark A. Cohen, Owen's Justin Potter Professor of American Competitive Enterprise and a leading expert on the enforcement of environmental regulations. "Who cares about that? Prospective recruiters and prospective students, to name two groups," adds Cohen.

#### Corporations as Citizens

The timing of the conference may be particularly opportune for boosting the school's visibility, as Net Impact's mission has never been more relevant to or

as embraced by corporate America as it is now.

"A decade ago, corporate social responsibility was a trendy idea promoted by quirky entrepreneurial companies like Ben & Jerry's Ice Cream," states material from a seminar on CSR sponsored last spring by the American Enterprise Institute for Public Policy Research (AEI).

At that conference, Cohen was among the internationally acclaimed group of speakers debating the significance of Wal-Mart's unprecedented foray into green business practices.

The debate may rage on about Wal-Mart, but signs suggest that CSR is growing increasingly relevant in a business world shaped by globalization, technology, and social and environmen-

tal concerns that are intricately linked to firms' financial bottom lines. A majority of the 250 biggest companies in the world issue separate reports on corporate responsibility—52 percent in 2005 compared with 45 percent in 2002—according to the KPMG International Survey of Corporate Responsibility Reporting in 2005. The survey also notes that CSR reporting has evolved from purely environmental reporting to sustainability reporting, defined as including social, ethical, environmental, and economic concerns.

Definitions of "corporate social responsibility" still vary—and some companies carry the banner in thinly veiled efforts to repair bruised public images—but by most estimates the movement to get corporations to think

## SHADES OF GREEN

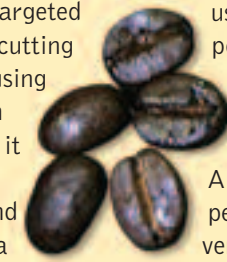
**Wal-Mart** emitted the equivalent of 20.8 million metric tons of carbon dioxide last year, according to ABC News—and the shipping and production it takes to fill Wal-Mart shelves probably amounts to 10 times that. To reduce that negative impact on the environment and reduce costs, Wal-Mart targeted its fleet of 7,000 trucks, cutting fuel use by 8 percent by using alternative power units in rigs. The new units make it possible to stop idling engines during loading and breaks. The company as a result has saved \$25 million in fuel bills and cut 100,000 metric tons of carbon dioxide emissions.

Wal-Mart is also working with government agencies and non-governmental organizations (NGOs) to perfect solutions to energy problems that can benefit other businesses. The wind turbine in McKinney, Texas, was created as part of a collaboration between the company and the Department of Energy's Advanced Small Wind Turbine Program. The goal is to design cost-effective small wind technology that performs well in low-wind situations.

**General Motors** projects that it will save more than 40 million gallons of water and 30 million kilowatts of electricity during the first 10 years of operations at its new Lansing Delta Township assembly plant. In August, the plant received a gold certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design

(LEED) program, the only automotive manufacturing plant in the world to receive LEED certification, recognizing a high level of performance.

**Green Mountain Coffee Roasters** and **International Paper** have jointly developed a coffee cup that uses nearly a quarter of a million pounds less of nonrenewable petrochemical materials every year than conventional cups, according to Green Mountain.



A conventional cup is lined with a petroleum-based plastic to prevent leaking. The new cup is lined with a bio-plastic made from corn. After use, and under the proper conditions, the material breaks down into water, carbon dioxide, and organic matter.

**Weyerhaeuser**, the international forest products corporation, pledged this summer to reduce greenhouse gas emissions 40 percent by 2020 while reducing its reliance on high-priced fossil fuels. To meet its goals, the company will increase its use of biomass as fuel in boilers to generate steam and electrical energy in its pulp and paper mills. Biomass fuel consists of bark, lignin (the substance that binds wood fibers), and other organics in spent pulping chemicals. When biomass comes from sustainably managed forests, burning it has a neutral effect on greenhouse gas emissions. The regenerating forest absorbs the carbon dioxide released by burning the fuel. By contrast, carbon dioxide released from burning fossil fuel is not offset.

more holistically has evolved into something with staying power.

Corporate social responsibility encourages businesses to consider the triple bottom line: the impact they have economically, socially, and environmentally, explains Frank Dixon, formerly the managing director of research of Innovest, an internationally recognized investment research and advisory firm specializing in analyzing companies' performance on environmental, social, and strategic governance issues.

While corporations struggle to "do the right thing," attending more seriously to the triple bottom line, it would be naïve to say that the change of policies at places such as Wal-Mart are dri-

ven solely by a sudden greening of CEOs' hearts, says Dixon, who consults with Wal-Mart and has spoken at Owen on a number of occasions.

"Activist efforts probably were one factor in Wal-Mart's decision to adopt an aggressive sustainability strategy," he allows.

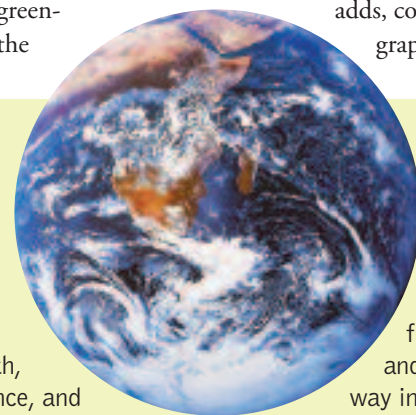
Still, big corporations' efforts to be more socially responsible go beyond risk management. In effect, the business world is rebalancing itself, say Dixon and others.

Corporations are learning that it can be bad business to focus solely on shareholder value—and that external changes, from greenhouse gases to the

world's burgeoning population—have a huge impact.

"Companies are part of a larger system, and they can't prosper if the larger system doesn't prosper as well," says Dixon.

"Business is in a dominating position as never before," agrees Bart Victor, Owen's Cal Turner Professor of Moral Leadership. "Corporations—in contrast to government, activists, and religion—have the greatest power to influence social realities and the environment. Business is a mechanism, an institution, that carries our hope and expectations for creating freedom in the world," he adds, commenting on business' role in grappling with the likes of poverty



## RESOURCES FOR BUSINESS LEADERS

**Net Impact.** With more than 120 student and professional chapters on 4 continents in 75 cities and 80 graduate schools, a central office in San Francisco, and partnerships with leading for-profit and nonprofit organizations, Net Impact helps to enable members use business for social good in their graduate education, careers, and communities. [www.netimpact.org](http://www.netimpact.org).

**GreenBiz.** This Web site has fast become a leading information resource on how to align environmental responsibility with business success. [www.greenbiz.com](http://www.greenbiz.com).

**World Business Council for Sustainable Development.** This organization brings together some 180 international companies in a "shared com-

mitment to sustainable development through economic growth, ecological balance, and social progress." The group seeks to guide businesses' "need to contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large." Members hail from more than 30 countries and 20 major industrial sectors. News on sustainable development is updated every weekday. [www.wbcsd.org](http://www.wbcsd.org)

**Beyond Grey Pinstripes.** This biennial report, produced jointly by the Aspen Institute and the World Resources Institute, surveys and

ranks business schools, and spotlights innovative full-time MBA programs and faculty that "lead the way in integrating issues of social and environmental stewardship into business school curricula and research." [www.beyondgreypinstripes.org](http://www.beyondgreypinstripes.org).

**Global Reporting Initiative.** This multi-stakeholder organization's vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting. Nearly 1,000 organizations worldwide report on their sustainability progress through GRI's guidelines. [www.globalreporting.org](http://www.globalreporting.org).

and social oppression. Though the verdict's out on how businesses will live up to such immense responsibilities, "it's exciting to be a part of it." As B-schools adapt, changes are likely to be driven in part by students preparing for business' new social and environmental realities.

Case in point: This fall, Victor launched a new one-credit class titled the Business and Poverty Project. The new offering, created through student initiative, will expand Owen's options for students interested in social entrepreneurship and microfinance. "Students wanted us to address the fact that 80 percent of the world earns less than \$1,500 a year," he explains.

Student interest in microfinance springs in part from the success of Vanderbilt alumnus Muhammad Yunus, PhD'72, founder of the Grameen Bank of Bangladesh, and 2006 winner of the Nobel Prize. The bank makes small loans to expand business in the interest of alleviating poverty. Yunus' "micro-credit" concept is now being practiced in 58 countries. The United States alone has over 500 Grameen spin-offs, some battling poverty successfully in places like Chicago.

### Changing the World

The Net Impact conference is another example of students' interests taking the lead in bringing new thinking about corporate social responsibility to Owen. The Net Impact event will push Owen even more into the vanguard of schools capable of educating students about corporate citizens' new roles, says Gowdy, whose decision to attend Vanderbilt turned in part on the school's enviable inclusion in a ranking of business schools' success in integrating social and environmental issues into the curriculum. (Owen was listed by the Aspen Institute/World Resources Institute in

2001 as having significant activity in teaching social conscience.)

Net Impact's goal—using the power of business to make a positive net social, environmental, and economic impact—meshes well with the goals of Gowdy and other members of Owen's Net Impact chapter, some 40 members strong. Gowdy as a student completed an internship with the New York City-based consulting firm GreenOrder, and today he's embarked on a CSR-focused career as a consultant offering "profitable environmental and socially responsible solutions" for businesses and nonprofit organizations.

After losing the 2006 conference to the Kellogg School of Management at Northwestern University, Gowdy set his sights on winning the 2007 event and building student awareness of Net Impact, and more than doubled the chapter's membership.

"I hope the upcoming conference will affect every student in a positive way," he says. Organizers hope the conference—and future club activities—will charge the school in a way that themes of corporate social responsibility seep even more deeply into the business school's curriculum.

### Teaching Tomorrow's Leaders

Owen and Vanderbilt already offer a number of CSR-related opportunities. Owen students now participate in two Leadership in Practice (LeaP) seminars while in school. The school kicked off the series for incoming students last year with a two-day seminar on ethics in the fall, followed by a two-day session on corporate social responsibility in the spring.

Through the series, Owen continues to bring multidisciplinary leadership-related business issues to students, Cohen says. Students entering Owen

this year took part in seminars on the same topics during orientation. Among the guest speakers was Bernie Marcus, co-founder of The Home Depot. (See related article on page seven.)

Students opting for an environmental management emphasis also benefit by taking courses outside of Owen. Vanderbilt University Law School's Mike Vandenberg, for example, teaches Environmental Law, and the arrival of University Distinguished Professor W. Kip Viscusi from Harvard Law School this past spring could pave the way for a new offering in environmental economics.

The Vanderbilt Center for Environmental Management Studies, a joint initiative of Owen, the School of Engineering, and the Law School, opens up more options to environmentally minded students by promoting and developing alliances among industry, government, and academia. In addition to courses such as co-director's Mark Abkowitz's Reliability and Risk Case Studies, VCEMS promotes and helps fund faculty research and brings leadership summits to Vanderbilt.

Owen also partners with the School of Law in CSR-related offerings. Cohen coordinates with the Law School, for example, for his Private Environmental Law and Voluntary Overcompliance course.

Speakers and sessions are not yet known for Owen's Net Impact conference, but student planners are being ambitious. Special tracts within the conference will focus on corporate social responsibility as it relates to the health care and music industries, reports Thul. "We're hoping this event pushes Owen onto the national stage," she says. "We're already doing a lot at Owen regarding CSR—and we're hoping the conference makes people take notice." **VB**

## INSIDE BUSINESS IRS Regulation 409A

continued from page 22

be declared a NQDC by the IRS if an internal person such as the CFO performs the valuation. If you are a CFO, why take that risk and potential negative fallout under Sarb-Ox? You are better off using a reliable, experienced third party to perform the valuation. If the IRS still declares the grant to be a NQDC, you may have recourse against the third-party.

### Updating the Valuation

Now, you've performed your valuation and established the common stock price. How often do you have to update the valuation? At bare minimum, you should update your common stock valuation at least annually. A valuation that is more than 12 months old is not considered reasonable. It is also recommended that you update your valuation if you have a new round of fundraising or a material event such as a product launch that would affect the enterprise value of the company.

Information of a material nature after the date of calculation that is not taken into consideration means the valuation is not reasonable under the IRS regulations. If you are using a third party, this means additional expense that should be viewed as an insurance policy. Most reputable valuation firms charge between \$10,000 and \$40,000 for an annual valuation. More frequent valuations mean more expense. In some instances your VCs may have discounted arrangements with reputable valuation firms. Expect price to increase as you add more rounds of funding and more complexity. It may seem a high price to pay, but valuation firms can

provide a company with valuable insight regarding allocation of enterprise value, forecast common stock price based on expected results or milestones, and reduction of enterprise valuation if the company misses its results or milestones. Their work can also be used to measure the impact of an IPO, merger, or acquisition on the company's enterprise valuation.

For private companies, it is recommended that options be granted on a monthly or quarterly basis and priced at the current valuation of the common stock during the 12 months the valuation is valid. Vesting, however, is not tied to the setting of the option exercise price. If you are expecting a new round of funding to close and have a binding term sheet, or



are expecting a material event like a product launch, the closer you get to that date you should probably consider waiting to price the options until updating your current valuation. It is better to be conservative if a known, certain event will impact the enterprise value and common stock price.

You should also review previously granted stock options that could be subject to Section 409A if they were issued at a discounted exercise price. If you determine that prior stock options were issued below fair market value, you do have the ability to amend any grant of options to comply with Section 409A. Certain amendments such as reduction of the exercise price (directly or indirectly), addition of a deferral feature or extension of a stock option beyond the "safe harbor," or renewal of a stock option is treated as a material modification and issuance of a new stock option and subject to Section 409A. Safe harbor is defined as the later of 2 1/2 months after the date the option

would otherwise expire or the end of the calendar year in which the option would otherwise expire. If an option holder wishes to exercise a Section 409A stock option after March 15, 2006, said options should be amended to comply with Section 409A before they're exercised to avoid recognizing taxes, penalties, and interest under Section 409A. Remember, taxes under Section 409A apply to a stock option that is not exercised but deemed subject to Section 409A. The only way to avoid the tax is for the company to amend the grant and reset the exercise price to fair market value.

Finally, start-up companies are subject to Section 409A. They may escape IRS review, but you can be certain that the IRS will review the stock option pricing practices of a private company as soon as it files public information for an IPO or is merged or acquired by a public company. The acquiring company may ask the start-up company to represent that none of the previously granted stock options are Section 409A stock options and may require long-term indemnification to back up this representation. If you have any questions or concerns about your option program, we recommend you seek the advice of your accountant or auditor, tax accountant, and/or legal counsel. Section 409A has many nuances that can be lost in the process, and you don't want to make a mistake that would make your company's stock options subject to Section 409A.

*This article is a reprint from the Financial Leadership Group's 2Q'06 Newsletter. The author, Eric Hall, MBA'78, is a principal of Financial Leadership Group, LLC (www.flgllc.com.) The Financial Leadership Group provides outsourced chief financial officer services for companies ranging from early-stage venture-backed companies to publicly traded Fortune 500 companies.*

MICHAEL HOGUE, MCT

## BUSINESS ROUNDTABLE

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Back to growth—growth is a key responsibility of the leadership within the operating groups. We have a management group made up of CEOs of each of the operating groups, plus our senior staff group. Before the acquisition of Lids, we measured early on the culture of their company and found they have the same the passion, the same discipline as we do, so the integration has been far easier than we anticipated.

**Hoeffler:** With Journeys, whose business are you taking away?

**Pennington:** It is fragmented, and there really isn't a direct competitor for Journeys. No other retailer is focused entirely on the teen footwear market. Journeys Kidz to some extent extended the kid's market. That was one of the slower start-ups we had, because there were so few brands. Mothers who had been Journeys customers wanted their little guy or girl to have cool shoes, and it created the marketplace.

**Caplan:** We are also dealing with the youth market that grew up in the specialty store environment.

**Hoeffler:** So customers have been trained that there should be a store to suit their needs.

**Pennington:** For younger customers, the first thing is style, the second concern is price. And then they get to brand. But the young customer looking for athletic footwear is very brand conscious because it is identifiable.

**Hoeffler:** Does it make you nervous to be so reliant on fashion?



**Genesco is in the second year of a five-year growth plan. Part of their strategy continues to be an acquisition strategy.**

**Pennington:** We are not cutting edge fashion. Our strength is trend spotting. Our talent is identifying trends and then moving there faster than anyone else in the marketplace.

**Hoeffler:** If a kid sees a shoe they like on TV, they show up at Journeys looking for it.

**Pennington:** You are hitting at the strength of Journeys. At Journeys, you see all the important brands and the important styling of those brands in one place. Others may have a few of those brands, but the real art to it is understanding how much to keep in stock, when to buy, and when not to buy.

**Hoeffler:** Boys are taking an interest in brands when they never used to.

**Pennington:** That is particularly true in the skate arena. About 50 percent of skateboard shoes sold are never used for skating. It is just a fashion state-

ment. And young women have been buying the shoes, again for a fashion statement.

**Escalas:** It sounds like there is no brand in Journeys that is yours.

**Pennington:** We have exclusivity in two ways. National brands will do things for Journeys, because it has 800 stores. They might produce a product for us in a special color they don't have in their regular line. We also find small manufacturers who own a brand and buy them at a nice cost. We don't own the brand, but it is a direct source.

Back to growth—A year ago, our senior management team said if we are a growth company, there are some things a growth company should look like. We started the year at \$1.1 billion dollars and said that within five years we wanted to be at \$2 billion. We wanted to be at operating margins between 9-10 percent and to grow our earnings at 15-20 percent annually. We are in the second year of that five-year plan. Part of our strategy continues to be an acquisition strategy.

**Hoeffler:** Is that growth internal growth or also acquisition growth?

**Pennington:** Primarily it is organic growth. We are opening about 200 stores each year. It is of a magnitude that we aren't forced to go make an acquisition. We don't know in a five-year period what else might come on the radar screen, but we are open and actively engaged in looking at acquisitions. What we really want is something not yet on the market, something that comes along where we can facilitate the growth. We will be very careful about acquisitions. **VB**

*The PRIMACY of Medicaid FOLLS most POLICYMAKERS. This program for the poor has become a giant middle-class SUBSIDY and has grown like KUDZU.*

## REFORMING HEALTH CARE

*continued from page 25*

A \$3.3 trillion annual deficit is considerably larger than the entire federal budget for the same time period. That means that we could eliminate all federal government for one year, and still have a large deficit! Our fiscal affairs are obviously out of control in Washington, D.C.

Social Security is relatively easy to reform, although it is still politically dangerous to talk about it much. President Bush's recent effort failed partly because of his unwillingness to consult with Congress. The political phrase is: "If you want me with you on the landing, I have to be with you on the take-off." Social Security is based on actuarial calculations that depend on well-understood variables: birthrates, longevity, and payroll taxes.

Medicare is in 10 times worse shape than Social Security. And Medicare is a nightmare to reform, because, in addition to the Social Security actuarial factors, you must add variables that no one understands: costs of delivering health care in different regions, margins and profits of delivery systems, productivity of health providers, and quality of their outcomes. It is embarrassing how primitive our knowledge is of these crucial questions. Journals like *Health Affairs* have been gradually improving our understanding over the years, but, unfortunately, not everyone subscribes. Even more unfortunate, some articles in medical journals like

*New England Journal of Medicine and Journal of the American Medical Association* can even harm your understanding of our system.

### Various Policy Band-Aids Have Just Treated Symptoms or Worsened the Disease

One small illustration of negative knowledge is the 2006 Social Security and Medicare Trustee's Report. On the surface, it looks like a sound document but the financials are troubling. On the last page, the Actuary's Report, you see that the entire report assumes a 37 percent cut in physicians' pay over the next nine years. This assumption is so unrealistic as to be laughable, making the entire document an exercise in absurdity.

America has discussed fundamental health reform every decade or so, but few major changes have occurred since the Great Society in the 1960s, when Medicare and Medicaid were established. Even the much-heralded Medicare Modernization Act of 2003 just added an extraordinarily expensive drug benefit to the old-fashioned Medicare package of benefits. There was some "modernization" in the MMA, but not nearly enough to rescue the program from financial collapse.

The unfunded cost of the new



MICHAEL HOGUE, MCT

Medicare drug benefit is estimated to be \$8.3 trillion over the next 75 years, surely the most expensive, and most unfunded, single program ever passed by Congress. A prominent conservative economist, Bruce Bartlett, in his recent book *Imposter: How George W. Bush Bankrupted America and Betrayed the Reagan Legacy*, says that the Medicare drug bill may be the worst legislation in all of American history.

If the first rule of holes is to stop digging, Congress has not only ignored the rule, but has started to use a power shovel.

America's sporadic efforts at reform since the 1960s have not helped our understanding or control of what is now over 15 percent of our economy. Various policy Band-Aids have sometimes

treated symptoms and, at other times, have worsened the disease. A particular problem is the limited understanding of most of our physicians. They are highly trained scientifically, widely trusted, and make roughly 80 percent of medical decisions, but are too often oblivious to costs, new medical evidence, or deficiencies with their own performance. When the nation's leading medical body, the Institute of Medicine, says that between 50,000 and 100,000 Americans die every year due to preventable medical errors, we have a crisis. That's the equivalent of two jumbo jets falling out of the sky every day, tragedies that we would never tolerate in any field except medicine. These tragedies should not be excused in a medical setting, but physicians have resisted efforts at quality improvements.

Another sign of how poorly understood our health care system is is that hardly anyone can name the government's top three or four health care programs. Most people, if asked, would rank them this way: Medicare, Medicaid, and the Veterans' Administration. That may be close enough for government work, but it is not accurate. A true listing would be: Medicaid, Medicare, a tax subsidy program you've never heard of, and a patchwork quilt of programs for the uninsured—before you get to the VA.

The primacy of Medicaid fools most policymakers. This program for the poor has become a giant middle-class subsidy and has grown like kudzu. Federal officials fail to understand its size

because of its large state component, which is excluded from federal budgeting. Even when state numbers are included, they are often years late and frequently inconsistent with other states' bookkeeping. Shockingly, Medicaid is not even listed in the table of contents of the "Green Book," the guide to large congressional programs, even though it spends well over \$300 billion annually. It can be found only under the category "other programs," where it is not even listed first.

The bigger mystery is the tax subsidy. This program has no name and is too complicated to explain in a short column, but it costs over \$200 billion annually, is growing at double-digit rates, is heavily tilted to the rich, and is completely invisible to its beneficiaries. There is no piece of paper which tells you whether, or how much, you benefit. It's not on your W-2 or 1099 forms, or on your 1040 tax return. To compound the mystery, this program was never passed by Congress, and has barely been acknowledged by most lawmakers.

Programs for the uninsured are also poorly understood. Ineffective at lowering the human tragedy of 45 million Americans without health insurance, these programs have both compounded and mitigated the damages that this vast population causes for providers. The unfunded government mandate for free emergency room care may cost \$30 billion annually, but an alphabet soup of other programs have helped compensate providers for their "uncompensated" care.

### Improving Sickness Care, Not Profitting From Its Confusion, Should be Goal

This is just some of the basic information that knowledgeable students and veteran practitioners need to understand our health care system. Unique in the world, the decentralized, convoluted, private-public, for-profit/non-profit, U.S. health system delivers both the best of medicine, and the worst. It certainly would never have been designed this way on purpose. It is an accumulation of history and circumstance, good science, and bad policies that offers U.S. patients the best of high-tech medicine at a cost that is bankrupting the richest country on earth.

The complexity of the health care maze is so enthralling that some experts lose their desire even to map the maze, much less to straighten out its pathways. I try to retain my idealism and to instill in my students a desire to improve America's sickness care system, not just profit from its confusion. Knowledge is for the benefit of mankind, not just the bottom line of health care providers.

.....  
JIM COOPER, *congressman for Tennessee's Fifth District, authored the chief rival to the Clinton Health Plan and has served on the budget, armed services, energy and commerce, financial services, and small business committees. He is an adjunct professor at the Owen School, teaching Health Care Policy. Previously he also worked as an investment banker and a lawyer.*

“CLASSTACTS”

Rob Morgan '84 *Tuning In* |

Mark Wright EMBA'84 *Venturing Forth* | Adena Friedman '93 *Taking Stock*

TUNING IN

E'84

**T**URN ON YOUR TV AND TUNE IN to CNBC or Bloomberg Television and you may well catch financial analyst Rob Morgan, MBA'84.

Morgan is SVP, private client portfolio strategist at Janney Montgomery Scott's downtown Philadelphia office. But he also makes frequent weekly TV appearances and has been published in multiple publications, from the *Philadelphia Business Journal* to the *Wall Street Transcript*.

“Never did I imagine in Dewey Daanes's classes, when he'd speak of serving as a governor on the Federal Reserve, that I'd someday be critiquing the Fed's policies on national TV,” Morgan says.

Television appearances complement Morgan's responsibilities at Janney, where he gives asset allocation advice to brokers in their 100 offices from Boston to Boca Raton. Additionally, he chairs a committee that gives buy/sell recommendations on 150 select stocks.



Rob Morgan

Janney, a subsidiary of The Penn Mutual Life Insurance Company, was established in 1832 and holds the second oldest seat on the NYSE.

“I love the work,” Morgan says. “I might be giving a presentation to a high net-worth client or speaking to 200. It's during the Q & A, which tests all of your knowledge, that I have the most fun.”

The challenge comes from trying to stay abreast of markets that are increasingly volatile. “They react much more rapidly to news,” he says. “It's partly due to marketplace globalization and today's technology that's available to so many more participants.”

Morgan lives in Pennsylvania's Amish countryside and also serves as finance chair of Lancaster County's Republican Party. “I'd like to get involved with more board work,” he adds. “With Sarbanes-Oxley, boards are encouraged to bring on more financial people.”

How far will Morgan take the appearances on national TV? Rob Morgan's own program or panel? Stay tuned.

—CAROL WISSMANN

Please Note:

CLASS NOTES ARE NOT AVAILABLE IN THE ONLINE VERSION.

VENTURING FORTH

E'84

**I**N THE HIGH RISK WORLD OF venture capital-backed business start-ups, Mark Wright, EMBA'84, is a two-time anomaly. “I've been really fortunate that both companies I started have been highly successful,” he says. “Most are not.”

In the late 1980s, while working at Ericson Marketing Communications, a large advertising agency in Nashville, Wright became aware of the health care industry's need for sophisticated market planning platforms.

Compiling government data and his own proprietary research, Wright started Inforum, a company that allowed hospitals to determine, by geographic area, both their market share and the demand for various health care services and procedures.

While remaining at Ericson, Wright hired management and supervised Inforum from the board level. Enormously successful, and with backing from Massey Burch Capital Corporation (a large venture capital company in Nashville, whose president Don Johnston also graduated from Vanderbilt), Inforum went public in 1991.

In 1996, Wright repeated the feat. Again, with Massey Burch backing, he

began @plan, a target marketing and planning system for advertising agencies, Web sites, and online retailers. Today, most major sites, from MSNBC to Google, are subscribers. The system allows Internet advertisers to target and rank potential online advertising sites from most to least efficient.

Like Inforum, the second business skyrocketed, quickly becoming an industry standard. As CEO, Wright also took @plan public.

In 2001, @plan was acquired by DoubleClick. Inforum ultimately sold to Thomson Corporation, an information products and solutions company. Both were purchased for over \$100 million.

With an 18-month non-compete agreement, Wright moved from the receiving to the giving end of the venture capital industry. Today, he serves as a director of Blue Chip Venture Company, leading their marketing and media services division in Stamford, Connecticut.

“What's most exciting is having an influence on media's evolution over the next 50 years,” Wright says. “Marketing is becoming much more refined and targeted. Ultimately, you'll only view advertising that's directly relevant to you, and programming will be all on-demand.”

—CAROL WISSMANN



Mark Wright

TAKING STOCK

E'93

**A**DENA FRIEDMAN HAS all the right fundamentals. From childhood poker strategies learned from her money-manager father to graduating with honors from Owen in 1993, she acquired the intellectual assets for her current position as executive vice president, Corporate Strategy and Data Products at Nasdaq.



Adena Friedman

"After business school, I wanted to work in product management in the financial field," Friedman says. As scarce as such opportunities are, she nevertheless immediately landed an entry-level position doing research at Nasdaq. For 13 years, Friedman worked through the ranks in such positions as marketing manager and product manager.

Today Friedman has two distinct jobs at Nasdaq. First, she oversees the data products division that supports the distribution of market details to the public. "We pride ourselves on being the most transparent stock market in the world," she says. Although small, the data products sales team brings in \$150 million in net revenue annually. Secondly, she runs the company's corporate strategy department. Competition with the NYSE is intense.

The two exchanges vie for the listing of companies wanting to go public, as well as solicit companies listed on the other exchange. The two exchanges compete to trade each others securities, and both trade approximately 20 percent of the securities of the other.

Friedman is also involved with complex mergers and acquisitions. For instance, Nasdaq, the world's largest electronic stock exchange, recently purchased a 25 percent stake in the London Stock Exchange.

"Our biggest opportunities, however, lie in developing relationships with our issuer community," Friedman says. For instance, U.S. companies' concerns over significantly increased costs associated with Sarbanes-Oxley provided the opening for Nasdaq to create their own insurance business providing coverage for directors and officers.

Is Friedman bullish on Nasdaq? "In 2005, our value rose over 200 percent," she says. "We were the #1 performing stock listed on our exchange."

An ideal match for a woman with all the right assets.

—CAROL WISSMANN

Owen Graduate School of Management Alumni Council

ALUMNI COUNCIL FOR MBA

- |                                |                                  |
|--------------------------------|----------------------------------|
| 1975 Jacqueline B. Shrago      | 1990 Robert E. Grohovsky         |
| 1975 J. Gil Fuqua, Jr.         | 1994 Janet Hall Koether          |
| 1976 Marc K. Fortune           | 1995 David Livingston Corts, Jr. |
| 1977 Edward B. Sickle III      | 1995 Robert Bruce Frutchey       |
| 1978 Eric J. Hall              | 1996 David Joseph Wathen         |
| 1980 Helaine Averbuch Fuldauer | 1999 Brenton Russell Turner      |
| 1981 Alice Peterson            | 2000 Stephanie Ryan Ditenhafer   |
| 1982 Ann R. Dominick           | 2001 Joseph Thomas Chatman       |
| 1984 Ronald L. Samuels         | 2002 Kristen and Thomas McDaniel |
| 1985 Joseph W. Harwell         | 2003 Lauren Frazier Rowe         |
| 1986 David Hornsby             | 2004 Anu Pardeshi                |
| 1988 Jeffrey King Davis        | 2005 Maren Winters Scoggins      |
| 1989 Steven Jongsup Shin       | 2006 Jeff Gowdy                  |

ALUMNI COUNCIL FOR EMBA

- |                                 |                         |
|---------------------------------|-------------------------|
| 1980 Arthur Joseph Rebrovick    | 1995 Nelson Andrews III |
| 1983 Patricia Lovell Siegfried  | 1996 Curtis Harold Finn |
| 1984 Anne D. Taylor             | 1999 Kimberly Windrow   |
| 1984 Stuart Malcolm Miller      | 2000 David Lee Dean     |
| 1985 Rita Ann Bennett           | 2002 Jeffrey R. Hanke   |
| 1989 Drusilla Linier Anderson   | 2003 Jennifer Gower     |
| 1993 Harold Dean St. Clair, Jr. | 2004 Nancy Louise Bach  |
| 1994 J. Burts Bryant            | 2005 Margaret O. Dolan  |

ALUMNI COUNCIL FOR MSF

- 2006 Martin Schnedlitz

ALUMNI COUNCIL FOR IMBA

- 1999 Gregory O'Hara

The Alumni Council is a group of alumni volunteers who are helping to foster meaningful class identify 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.

Deaths

**RICHARD LEWIS JACOBS, EMBA'81**, of Jackson, Tennessee, July 21, in a single car accident. He served as chairman and president of River Oil Company, and was part owner of Touchstone, Inc. and a director of First Tennessee Bank.

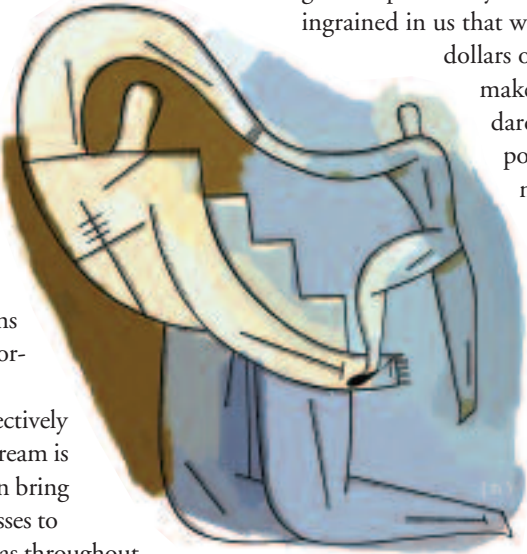
## PROJECT PYRAMID

*continued from page 17*

his book, CK asks the question: "What if we mobilized the resources, scale, and scope of large firms to co-create solutions to the problems at the bottom of the pyramid (BOP), those 4 billion people who live on less than \$2 a day?" He suggests that the world's fastest-growing new market opportunity is at the bottom of the pyramid, and that by understanding this we can work to create profitable sustainable businesses and effectively alleviate poverty.

### Profitable Businesses Can Help Eliminate Poverty at the Bottom of the Pyramid

After reading the book, I began working with several classmates to develop a sustainable business school model dedicated to helping millions of the world's poorest people escape poverty. We collectively realize that this dream is possible. If we can bring profitable businesses to impoverished areas throughout the world, we can help raise the standard of living for people who have long been forgotten. ...those at the bottom of the pyramid. We looked at a variety of different avenues, searching for a way to effectively bring this concept into the mainstream business community, and realized that by creating a program within the existing business school structure, we would maximize our reach and build awareness early in students' careers.



With the approval and enthusiasm of the Dean's Office, we moved forward to create two new courses at Owen, an international immersion experience, and a case competition, all focused around our theme of *Changing the World from the Bottom Up*. This year we are hearing lectures on BOP by business leaders from around the world. We will study BOP opportunities in India for six weeks before actually visiting remote locations in India to gain a deeper understanding of how we can help and about the barriers we will face along the way.

The goal is for us to learn that as future business leaders, we will soon be in a position to drive profitable business, and that with great power comes great responsibility. It needs to be ingrained in us that with every billion dollars our businesses make, the living standards of 4 billion poor in the world need to be raised to new levels: A woman living in a remote location in South Africa, for instance, will be able to enjoy hard wood flooring, a sink, or a computer. We will learn to celebrate success not only as our stock rises, but when a farmer in India is able to employ people from his village to work his fields while he sells his own product to buyers in NYC through a wireless Internet kiosk.

My hope is that this vision will be adopted by business schools around the world so that we can help change the way business views those positioned at the bottom of the pyramid.

Since that night in the hospital two years ago, I have wanted more for my life, and I found what I was looking for at Owen. This school has shown me what it means to be a professional, an academic, and a human being. My peers have taught me what excellence truly means, how much dedication it takes to achieve greatness, and how much strength, compassion, and selflessness it takes to be a leader. I promise to dedicate every day at Owen to creating a better experience for my peers, as I know they are committed to doing the same for me.

I started *Project Pyramid* with several other classmates of mine, all with amazing Owen experiences:

Chris Baxley, OSGA president (beat me in the election!)

Robert Dineen, MBA'06, founder of AscensionRite LLC

Andy Hammer, Bottom of the Pyramid, Speaker Series VP

Dane Honhart, Honor Council, president

Alan Hopper, Vanderbilt Entrepreneurship Association, VP

Nat Robinson, Global Business Club, president

Bana Shomali, Consulting Club, VP  
Karin Thul, Global Business Club, EVP

*Project Pyramid* is just one way Owen students, alums, faculty, and staff can help to alleviate poverty. As you read my story and begin thinking of ways you can help alleviate poverty in the world, please consider reaching out to Owen organizations such as 100% Owen and Net Impact. These organizations are dedicated to corporate social responsibility, non-profit, and service work. Also, feel free to contact me directly if you would like more information on *Project Pyramid*. Together, we can change the world from the bottom up. rehan.choudhry.2007@owen.vanderbilt.edu. **VB**

## Make a Gift to Vanderbilt from Your IRA

**U**nder the new Pension Protection Act of 2006 you'll avoid paying taxes on amounts transferred directly ("rolled over") from your IRA to Vanderbilt University. Under the old law, all withdrawals from an IRA were included in taxable income.

**A NEW TAX-SAVING OPPORTUNITY**

### About Charitable IRA Rollover gifts:

- You must be at least age 70 1/2.
- The new rule applies only for tax years 2006 and 2007.
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The new rollovers satisfy your Required Minimum Distribution.

To find out more, please contact Vanderbilt's Planned Giving staff at 615/343-3113, 888/758-1999 or [plannedgiving@vanderbilt.edu](mailto:plannedgiving@vanderbilt.edu).

## B SCHOOLS ARE DIFFERENT!

*continued from page 68*

cessful! But your successes need to be visible—first, within the Owen family and then within the greater business community. One of the highest priorities for our dean, Jim Bradford, if not the highest, is "alumni connectivity." To this end he has reenergized the alumni board with more robust meetings and agendas, created a new class agent program, developed an international board of visitors, and continues to travel extensively in this country and abroad connecting with alumni and the greater business community. He's also engineered a new team at home and new administrative infrastructure that will enable Owen to start making the simplest of improvements, such as getting good up-

to-date information on all of our alumni and then making that available to everyone in the Owen family—other alumni, current students, faculty, and staff.

Alumni connectivity is key to engaging alumni in hiring our students for both internships and full-time jobs. These opportunities usually come as result of the success of our alumni: alumni who are successful within big organizations or alumni whose success enhance the reputation of the school and thereby encourage organizations and others to come and recruit current students.

During the last 18 months, while our dean was assessing Owen's status and best strategies, we have been traveling the country meeting alumni, visiting their organizations, and getting alumni reconnected to the school and to each other. We have col-

lectively met with more than 1,000 alumni, visited over 100 organizations, and with one or two exceptions, the unanimous response after hearing the Owen story and our dean's plan for growth has been, "What can I do to help?"

The alumni connectivity initiative which you will hear and see much about over the next 12 months is truly the cornerstone for our strategic plan as we move Owen toward the very top ranks of B schools. Many of the top administrators and key faculty will be out on the road over the next year, meeting with alumni, hosting socials, and visiting employers that hire significant numbers of MBAs every year. We look forward to meeting you and together moving Owen into the top ranks of business schools. **VB**



## B Schools are Different!

*Alumni Support is More Critical to Their Success*

By TRICIA CARSWELL AND PETER VERUKI

**Y**ES, MBA SCHOOLS ARE DIFFERENT FROM all other professional and graduate schools, and we state this emphatically. No other professional or graduate schools depend as much on their alumni to achieve greatness as do business schools. You can be a great medical or law school or school of architecture or education and have alumni who are indifferent or ambivalent about their school. But a business school can never achieve the highest levels of excellence without alumni who

- 1) care about what their school is doing;
- 2) hire interns and graduates;
- 3) promote their business school within their organization;
- 4) give back, both in time and financial resources;
- 5) get involved by speaking to student groups, serving on committees and boards, and most importantly, providing feedback to the faculty and the dean as to what is really happening in the business world, e.g., what are the

TRICIA CARSWELL is associate dean of development and alumni relations, and Peter Veruki is director of corporate relations.



Tricia Carswell and Peter Veruki: Coming to a city near you.

trends within their sector or industry, what are the relevant skills needed today to be successful in the business world, what should Owen be doing more of to better prepare today's students for tomorrow's business and organizational challenges. Owen has almost 7,000 alumni employed in every type of business, from one person start-ups or small consulting/advisory firms to the largest Fortune companies, international banks, and large consulting firms. Still others are employed in not-for-profit or in public sector jobs.

No amount of brilliant teaching or 700+ GMAT scores or leading edge research will lift Owen to the top ranks of B schools. It is alumni—not GMAT scores—that determine a school's success.

As an alumnus, you have a responsibility to continually provide feedback and information to the dean and faculty if Owen is truly going to be a leading school of management education, i.e., what are the technical breakthroughs ahead in your industry or sector, what should we be teaching or emphasizing in the classroom, etc.

We maintain that the reason HBS is the "academy" and sits at the top ranks of B schools is they have produced thousands of highly successful alumni over their long history, and these alumni are visible in the business community and within the HBS community. They come back every year to hire; they do business deals with each other; they raise large sums of money to endow chairs, underwrite scholarships, and much more.

So, as Owen alumni, we need to hear from you. Students need to meet you and hear your story. The dean and the faculty are anxious to know how they can tweak the program to provide a more valuable learning experience. The success and the national reputation of Owen depend on this.

### Alumni Connectivity Part of Strategic Plan

The first step in achieving greatness for a business school is to recognize the success of all its alumni—and our alumni are suc-

*Continued on page 67*

# Give. And Get.

Support Owen and bolster your retirement savings with the VU Flexible Gift Annuity.

The VU Flexible Gift Annuity allows Owen alumni and friends to make a gift now, when you need an income tax deduction, and receive income for life at a future date that you choose.

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Payout rate at age 75	19.5% (\$1,950)	15.1% (\$1,510)

\*Minimum age of 55. Payouts as of October 2006.

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