



A Good Yarn

How Josué Gomes da Silva,
MBA '89, Took Coteminas
International

CORPORATE BAILOUTS

It Pays to be Connected

THE DYNAMIC CIO

Make Room at the Table

CASTING A WIDE NET

Owen Conference
Highlights CSR

SPECIAL SECTION

Course Work: Networking
at the Golf Tourney

Special Issue!

2005-06 Donor
Report Included

Oliver Banks (Operations) and Josh Stewart (Marketing) trade business suits for scrubs as part of the Vanderbilt Health Care MBA.

Discover this place,
Shape your world.™

We send our MBAs
to the hospital.

Students in our Health Care MBA program don't just study health care. They're immersed in it.

They spend night shifts at Vanderbilt Medical Center. Grasp the perspectives of patients, physicians and managers. Gain critical experience from consulting projects and internships. Make invaluable contacts among Nashville's health care community, a city that's home to over 300 health care companies.

The result? Graduates who understand this complex industry from the inside out and are ready to make a difference their first day on the job.

If you're looking to become a future leader in health care — or to recruit one — look to Vanderbilt, the leader in health care management education.

VanderbiltHealthCareMBA
OWEN GRADUATE SCHOOL OF MANAGEMENT

www.owen.vanderbilt.edu

Fall 2006

CONTENTS



52

DEPARTMENTS

- 2 PERSONAL ASSETS**
Bob Springer, MBA '03: Don't Let Negative Ink Tear You Down
- 12 BUSINESS ROUNDTABLE**
Genesco: When the Shoe Fits
- 16 STUDENT EXPERIENCE**
Changing the World from Bottom Up
by REHAN CHOUDHRY, MBA '07
- 35 IN THE NEWS**
Headlines from Around the World
- 24 INFORMED OPINION**
Reforming Health Care
by REP. JIM COOPER
- 26 CORPORATE SPOTLIGHT**
Deloitte Consulting Spans Time and Place
by BETH MATTER
- 68 BOTTOM LINE**
B Schools are Different!
by TRICIA CARSWELL AND PETER VERUKI
- ON THE COVER**
Josué Gomes da Silva, MBA '89
Photo by DANIEL DUBOIS



32

- FEATURES**
- 36 A GOOD YARN**
Josué Gomes da Silva, MBA '89, Takes Brazilian Giant Coteminas to International Stage
by LISA A. DUBOIS
- 42 CORPORATE BAILOUTS**
Owen Professors Measure the Value of Political Connections
by RANDY HORICK
- 46 THE DYNAMIC CIO**
Make Room at the Executive Table, Because Chief Information Officers Need a Chair of Their Own
by SHARON H. FITZGERALD
- 52 CASTING A WIDE NET**
Corporate Social Responsibility Captures Attention of Owen and the World Beyond
by YVONNE PARSONS POINDEXTER

CENTER SPREAD

Celebrate Owen First: A Report on the Generosity of Owen Alumni and Friends

MISCELLANEOUS

- 4 EDITOR'S MEMO**
Exit Strategy
- 5 INBOX**
Letters from Readers
- 6 INSIDE OWEN**
Benefits of Sharing, Building the USA Today Business, Good Tread, Grounding CSR in Profits, PAC 10 QB Throws in with Owen School, Summer Business Fund, Importance of Clear Vision, To the Heart of the Customer
- 18 INSIDE BUSINESS**
Loyalty Myths, Imagine the Customers, Positive Economics of Immigration, IRS Regulation 409A: What It Means for Today's Venture CFO, Not-for-Profit Hospitals: Priced Right
- 62 CLASS ACTS**
Rob Morgan, '84—Tuning In; Mark Wright, EMBA'84—Venturing Forth; Adena Friedman, '93—Taking Stock; Class Notes



7

SPECIAL SECTION

- 28 COURSE WORK**
Networking at Finance Golf Tourney

Building Dreams

Don't Let Negative Ink Tear You Down

BOB SPRINGER GRADUATED IN 2003, a troubled time for MBA graduates, especially career switchers. Because of the economy, companies weren't hiring. The *Wall Street Journal* called on Springer for comment on the tough job market. "I was excited about being in the *Wall Street Journal*, but the piece came out, and the headline was 'Dashed Dreams.' I took exception to that—it was such a negative take on things as if all was lost because times were tough. I tried to turn that around and put a framed reprint on my wall as motivation."

It worked. A civil engineer, Springer wanted to go into building development and teamed up with Marty Heflin, a Nashville developer who had been a speaker in one of his real estate classes. Springer felt that if he couldn't find a job, he might as well go into business for himself. The urban living trend has hit Nashville, and they have focused on "in-fill" residential—filling in little areas of the city that are redeveloping—and are now building their second condo development near Vanderbilt.

"From our projects' front doors, there are 42 restaurants within walking distance. It is definitely the place to be," Springer says. They have also re-habbed the historic Stahlman office building in downtown Nashville as apartments.

"Business school gives you a set of tools, but then it's up to you to take those tools and build your way around challenges and barriers that come your way," Springer says. "Owen gives students the opportunity to create your own track, and the faculty is tremendous about working with you and supporting you in what you want to do." If you have a passion, you will end up making money, he reminds. "You just have to stay positive and keep moving forward." **VB**



Bob Springer has taken advantage of Nashville's reputation as a "cool" place to live and work and has entered into the in-fill residential development business.

DANIEL DUBOIS

FALL 2006
Volume 26, Issue 1

DEAN
JIM BRADFORD

EDITOR
BETH MATTER, MLAS'02

CONTRIBUTORS
NELSON BRYAN, NEIL BRAKE, PATRICIA CARSWELL, REHAN CHOUDHRY, MBA'07, JIM COOPER, DANIEL DUBOIS, LISA DUBOIS, SHARON FITZGERALD, ERIC HALL, MBA'78, RANDY HORICK, TIMOTHY KEININGHAM, MBA'89, DAVID PARSLEY, YVONNE POINDEXTER, PETER VERUKI, CAROL WISSMANN

DESIGNER
MICHAEL T. SMELTZER

ART DIRECTOR
DONNA PRITCHETT

EXECUTIVE DIRECTOR OF
MARKETING AND COMMUNICATIONS
YVONNE MARTIN-KIDD

ASSOCIATE DEAN OF DEVELOPMENT
AND ALUMNI RELATIONS
PATRICIA CARSWELL

EDITORIAL OFFICES: Vanderbilt University, Office of Advancement Communications, VU Station B 357703, 2301 Vanderbilt Place, Nashville, TN 37235-7703, Telephone: 615.322.0817, Fax: 615.343.8547, owenmagazine@vanderbilt.edu

PLEASE DIRECT ALUMNI INQUIRIES TO: Alumni Affairs Office, Owen Graduate School of Management, VU Station B 357754, 2301 Vanderbilt Place, Nashville, TN 37235-7754, Telephone: 615.322.0815, alum@owen.vanderbilt.edu. Vanderbilt University is committed to principles of equal opportunity and affirmative action. Visit the Owen School on the Web: www.owen.vanderbilt.edu. Alumni Publications on the Web: <http://www.vanderbilt.edu/alumni/publications>

Vanderbilt Business Magazine is published twice a year by the Owen Graduate School of Management at Vanderbilt University, 401 21st Avenue South, Nashville, TN 37203-9932, in cooperation with the Vanderbilt Office of Advancement Communications. ©2005 Vanderbilt University. "Vanderbilt" and the Vanderbilt logo are registered trademarks and service marks of Vanderbilt University.

Exit Strategy

After Eight Wonderful Years, It is Hard to Say Goodbye
By BETH MATTER

DURING MY EIGHT YEARS AT OWEN, I HAVE learned about exit strategies. How some business people believe in them and others don't. That some venture capitalists want to hear about exit strategies, while others want it to be the last thing on an entrepreneur's mind.

I just never thought I would have an exit strategy.

When I joined Vanderbilt's Office of Alumni Publications a number of years ago, I knew I was home. It was the perfect job for me, combining my interests in alumni activities and magazine journalism. I quickly settled in, first becoming editor of *Engineering News*, then the *Vanderbilt Lawyer*, and in 1998, the *Owen Manager*, now called *Vanderbilt Business* magazine. I have never stopped being amazed at the interesting alumni and their stories to come out of Owen and Vanderbilt University. Lack of material has never been a concern—that is for sure.

When we redesigned the magazine in 2004, I was given the mission to take *Vanderbilt Business* to new levels and to make it a leader business publication—to infuse it with life, to capture the resources and people of the Owen School, and to make the articles relevant to business. The positive feedback, the inquiries from other schools as to how to replicate the product, and the awards the magazine has received makes me think we hit the mark.

During recent years, I have also witnessed an interesting trend: Alumni magazines across the country have become much better publications, giving commer-

cial magazines a run for their money. I am part of a group called College and University Editors (CUE), and we attend a yearly editor's meeting, held last year in Nashville. During that meeting, 300 of us renewed our visions and missions to deliver high quality magazine journalism to the schools we serve, and collectively agreed that we have the best jobs in the world.



So why am I saying goodbye? I am leaving to join my family's printing company, Mat-co Business Forms here in Nashville, to learn my father's job, and to someday possibly take over the company. This is a tall order for me indeed—an editor with half of a law degree under my belt suddenly doing operations. The truth is that doing Owen's magazine all these years has rubbed off on me. I have gotten excited about the business world I have covered and now want to be part of that world myself. You Owen people are good at making business interesting!

I will miss magazine work, this magazine especially, and all of you very much. The Owen community is definitely something special, and I am glad to be a part of it. In my new job, I will be a newbie, which is both exhilarating and frightening, and doing work that is 180 degrees from what I do now. The good part is that if I get into a jam, I know the best business people in the world to contact—all of you Owen alums!

I hope you will enjoy this issue of the magazine. Our feature articles take a look at how Josué Gomes da Silva, MBA'89, of Brazil, took his company Coteminas to the international stage; how Stuart Scott,

Continued on next page

Inbox

The HR article and even more so, the older worker article, hit on key issues that my company is focusing on. So thank you.



ARTICLES HELPED WITH WORK ISSUES

Current issue is GREAT (Summer 2006). I have never read so many articles. I'm highlighting the older worker article now. And I have never done that with this magazine before. Kudos to you and the team.

The HR article and even more so, the older worker article, hit on key issues that my company is focusing on. So thank you.
Corbette Doyle, E'87
Global Chief Diversity Officer, Aon
Brentwood, Tennessee

DISCOVERING ETHICS SYNERGIES

In mid July, I emailed you to get contact information for Owen alumna Alice Peterson, founder of Syrus Global/Listen Up, who was featured in your magazine. Although I am not an alumnus of the business school, I am a Vanderbilt alumnus, and my alert former fraternity brother, roommate, and tennis partner on Vanderbilt's varsity team, John Loomis, called to say that I should contact Alice because it appeared to him that her company and the Ethics Resource Center (ERC), of which I am chairman of the board, would have mutually beneficial synergies.

EXIT STRATEGY

continued from previous page

EMBA'94, of Microsoft and others describe the job of CIO today; Professor Mara Faccio's research on politically connected companies; and Owen's winning

John was right. Alice's company markets helpline services, and the ERC provides ethics program consulting services to domestic and foreign organizations with an

emphasis on employee surveys and identification of organizational vulnerabilities. We frequently recommend the installation of a helpline to uncover problem areas. We have already provided a client with information about the services of Alice's company.

I anticipate that as Syrus Global/Listen Up and ERC get to know each other's strengths and weaknesses better, we will have opportunities to partner on projects. We have different skills to offer, but we share the goal of improving organizational governance.

Stephen Potts, BA'52, LLB'54
Chair, Ethics Resource Center
Washington, D.C.

CATCHING THE BUZZ

I just saw the summer '06 issue of "VB." Great stuff! Well written, strong story selection. . . . timely, fresh, and very relevant! Good reads throughout. All of this is punctuated by great design and absolutely fan-

tastic photography. In particular, I love the "All the Buzz" group photo. . . .and the gorgeous portraits that follow. Good job on a great publication! I'm sure Dean Bradford et al are proud to have this magazine represent Owen.

Skip Anderson
Editor-In-Chief, "Commodore Nation"

MAGAZINE CAPTURES SCHOOL WELL

I just took a good look at the summer issue of *Vanderbilt Business* and wanted to acknowledge the production team that did such fine work. I thought the issue was absolutely terrific with interesting and varied articles, attractive design, and good photos. For my money, this might be the best publication of its kind on our campus. You should be very proud of this magazine; it flatters your excellent program.

Rod Williamson
Director of External Relations
Vanderbilt University Athletics

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

the enviable right to host the 2007 Net Impact conference. Rep. Jim Cooper wrote an informative piece on the need for health care reform, and Rehan Choudhry wrote on an exciting new initiative: Project Pyramid. The Business Roundtable article is a Q&A with Genesco's CEO Hal Penning-

ton, and SVP Jon Caplan, MBA'82, about how the 82-year old Nashville company has reinvigorated itself. Don't miss our fun photos of finance alums on the golf course. And again, the most important news is about YOU, so please send in a class note: owenmagazine@vanderbilt.edu. **VB**

INSIDE OWEN

Program *Summer Business Fund* | Speakers *Good Tread, Building USA Today, Importance of Clear Vision, Grounding**CSR in Profits* | Community *To the Heart of the Customer* | Resources *Benefits of Sharing* | Athletics *Pac 10 QB at Owen*

PROGRAM

Summer
Business Fund

ENTREPRENEURIAL STUDENTS COMING to Owen now have more resources to help them start their own businesses. The Owen Entrepreneurship Center (OEC) Summer Enterprise Development Program helps stimulate new business venture ideas by providing financial support for the summer between the first and second years of the MBA program. The support allows students to work full time on their business ideas during the summer instead of getting an internship at another company.

OEC offers support to entrepreneurial students.

The program guides students in conceiving a business concept, formulating it, investigating its feasibility in the market, and producing a robust business plan. Up to four of these plans are selected by a panel of judges for \$15,000 summer stipends.

Two students chosen for funding last summer, Alan Hopper and Kimberly Lexow, speak highly of the benefits of the program.

Hopper, who is developing an information security product, said he spent the summer meeting with angel investors and venture capitalists, researching the industry, filing a provisional patent on the core technology, and developing a product prototype, among other steps. In the process, he



learned there is a clear need for his product, and that information security professionals feel his solution has enormous potential. “My device prevents the loss of credit card information and keeps companies from ending up on the front of the *Wall Street Journal*,” he says.

Hopper came to business school with a notebook of ideas, and the coaching he received at Owen helped him to determine which ideas were good and which were not. “I have received immense support from professors, students, alumni, and local entrepreneurs. The Vanderbilt community has been very generous with their time and advice.”

Lexow and her business partner have started a health care services firm focused on revolutionizing customer ser-

vice in primary care. “We are working with physicians to drastically improve and enhance the health care experience for patients and their families,” she says.

The program provided them with the time and resources to redesign their overall model to provide for ease of repeated implementation and scalability as well as development of three alternative revenue sources, she added. “We also were successful in identifying several physician partners and key professionals for the company advisory board.” Overall, she said, the experience last summer taught them several key lessons they could only learn by doing: be adaptable and flexible and don’t try to create services to justify price, but rather set a price point that matches the value of the key service.

For more information on the program, contact OEC professors Germain Böer at germain.boer@owen.vanderbilt.edu or Bruce Lynskey, bruce.lynskey@owen.vanderbilt.edu.

SPEAKERS

Good Tread

BRIDGESTONE FIRESTONE IS SUCCESSFUL largely because of its highly engineered tire technology—new technologies that allow tires to perform well in adverse conditions: when the road is wet, the tire is worn; when there is tire air loss, when there is snow.

But the company is also successful because they focus on a few simple goals: to continue to improve customer

relations; teammate relations; and government, media, and community relations; to continue to improve quality process systems; and to make money.

Bottom line—said Mark Emkes, chairman and CEO of Bridgestone Americas Holding, Inc. in his talk as Distinguished Speaker—a well constructed simple game plan that can be clearly communicated to team members and executed by them is the most powerful path for a successful business enterprise.

“I don’t think of our teammates as employees,” he said. “We are all part of a team that wants to do well. To do well, we must provide teammates with the tools they need to do their jobs. We focus on respect; keep teammates informed, recognized, and inspired; and at all times promote business ethics and team building.”

They also believe in feedback. Last year the company implemented the 360 degree review process in their North America Tire Business. “We have always encouraged two-way communication with our teammates, and the 360 degree

review affords everyone the opportunity to evaluate their superiors. If used correctly, the managers will become effective leaders.” They implemented this process in Mexico in 1995 and in Brazil in 1998, and is the reason they have such excellent union relationships in those two countries, he said. “The unions realized they were being respected.”

COMMUNITY

To the Heart of
the Customer

CAL TURNER, JR., AS’62, IS A MASTER storyteller. Get him in front of a class of business students and he will start telling tales about his aunt, his schoolteacher, the banker, and the librarian from his hometown of Scottsville, Kentucky, the birthplace of Dollar General Store.

But he quickly relates it all back to business basics: ethics and knowing your customer, and he works hard to pass on to the audience his lessons learned, many the hard way.

Today, Dollar General, serving primarily underserved rural and urban markets, is thriving with more than 8,000 stores in 34 states. In fact, there are more Dollar General Store locations than any other mass merchandise retailer in the country. Turner, previous chairman of the company, retired in 2003 and now runs the Cal Turner Family Foundation.

But early on, he and the com-



Dollar General Store flourishes through love of their customer.

pany had struggles, and he doesn’t hesitate to tell Owen students about some of them.

Having to fire family members from the “family business” and Dollar General being investigated and fined by the SEC for accounting irregularities, were just a couple of the challenges Turner faced during his tenure at Dollar General. Concerning the latter, the headline for a January 2002 *Wall Street Journal* interview with Turner read, “Unlike Others, Dollar General Issues a Mea Culpa—Amid Enron, Other Scandals, Discount Retailer Apologizes for Its Accounting Problems.”

“This was a surprise for us—with the values our company believes in, how could we get into that kind of difficulty? We had been the heroes of Wall Street, and then this happened, and I saw our employees suffer because of it. I hope that your mistakes are the fodder for your deepening and development as a person as they have been for me,” Turner related

For Bridgestone Firestone, a well constructed, clear, simple game plan is traction for business success.



recently to an Owen class on ethics.

Turner told the students that each individual has to set his or her own ethical agenda that is unique to them and appropriate to their lives and circumstances. “We also have to define who we are ahead of the battle,” he relayed. “These experiences challenge me even in the reflection of them. As a leader, it is your impact on others that will define the success of your leadership. A really good leader knows how to deal with out-of-control situations, because if you think you are in control, you are out of touch with reality.”

Bart Victor, the Cal Turner Professor of Moral Leadership, also invited Turner to be a speaker in his new course titled the Business and Poverty Project. Victor gave his students a glimpse into the retailer’s mission when he mentioned that Dollar General’s primary market is those at the bottom of the economic pyramid, and that for them even paying \$1 for a greeting card is too much, so Dollar General created a niche in the market by selling two cards for \$1.

“We really want to make life better for our customer, even with unexciting stuff in life like toilet paper, bleach, and underwear. They can’t afford to wait for a sale,” Turner said. Like any other retailer, Turner has to understand his business and look at location and traffic patterns and other metrics in order to be successful. But the company has gone above and beyond and employed its own customers, helping to educate them in the process, located stores in inner city neighborhoods, and made ending illiteracy their philanthropic project, among other priorities.

This approach has enabled Dollar General to flourish in an age of the Big Box. “Other retailers may pay attention to the competition, but we are benefited by the love of our customer. Every company

should have its own unique agenda, and that is ours.

“Employees also have greater motivation and greater fulfillment if they are part of something that makes a difference,” he continued. “When an organization has demonstrated it has a heart for its customers and wants to pay back the communities it is in, then that is a good place to work, and you will work with good people.”

RESOURCES

Benefits of Sharing

TO SOME, “SHARED SERVICES” IS A negative concept, said Mike Lee, VP of North Highland Company, at one of Owen’s Boardroom Breakfasts. “They have been there and done that, and may not have had a high degree of success with it.

“Some think when you move to shared services you lose control, and services will go down. Actually, when done well, it is the opposite,” he continued. “Today some 75 to 80 percent of Fortune 500 companies have some type of shared services.”

Shared services or leveraged services is different from the traditional “consolidation” concept, he pointed out. “Shared services is the concentration of company resources performing like activities typically spread across the organization, in order to service multiple business units at both a lower cost and higher service level, and with the common goal of strengthening corporate value and enhancing service to external customers.”

But people tend to have misconcep-

Shared services for multiple business units results in higher level service and typically lower cost.

tions about shared services, he added. “One is that it is a cost play flag—that it is all about cost reduction. One of the goals can be to reduce costs, but there are many other compelling reasons to do shared services. When it is done well, your services go up dramatically from a decentralized model.”

Another misconception is that shared services is nothing more than centralization. “It is not centralization and it is not decentralization—shared services is just that: shared services for multiple business units—higher level service and typically lower cost.”

Beverly Wallace, president of HCA’s Financial Services Group, a panelist for the program, talked about their experience with shared services. “I have multiple services under the shared services



MICHAEL HOGUE, MCT

umbrella. We went to a shared services model mainly from a compliance initiative. We wanted to take variation out of routine management and take variation out of contract strategy with managed care companies. It has served us well, both from a service perspective and a cost perspective.”

Floyd Rutan, executive director at Cummins Business Services, another panelist, also gave the nod to shared services. “In the mid-1990s, we did a study comparing ourselves to other companies in similar industries and found that we were not leveraging our scale. We formed a shared services group in 1998 and foundered for a couple of years. But today we have 21 services in the group that covers IT and accounting and HR in 40 countries. We hit our stride over the last three years and have had a lot of success with standardization and process improvement. It has been a very positive experience.”

ATHLETICS

PAC 10 QB Throws in with Owen School

FORMER UNIVERSITY OF ARIZONA quarterback Richard Kovalcheck has thrown his lot in with the Owen School while maintaining two years of collegiate football eligibility with the Commodores.

“I’m pleased to announce that Richard is joining our program,” Coach Bobby Johnson announced in June. “It gives us an opportunity to add a quality player to our roster. He’s a proven player on the field and also a proven student in the classroom. ... This gives our football team more quality depth at a critical position.”

A native of Southern California, Kovalcheck transferred to Vanderbilt after graduating from Arizona last May with a bachelor’s degree in business management. A highly regarded quarterback out of San Diego, he threw 16 touchdown passes for the Wildcats while starting 11 games during the 2004 and 2005 seasons. He graduated in three years and started course work last summer at Owen toward a health care MBA.

Kovalcheck became immediately available for the Commodores due to the new NCAA bylaw 2005-54, governing transfers of student-athletes that have eligibility remaining and have completed their undergraduate degrees. With two years of eligibility left, he also meets all Southeastern Conference transfer requirements.

“Last February I would never have thought that I would be at Vanderbilt right now,” he says. “I knew that the only way to get into a good MBA program, and play football for a solid program, was to score high on the GMAT test and keep myself in good physical condition.” He scored well on the GMAT test and started the search for programs that combined opportunities in football and business school.

“I took a trip out to Vanderbilt and met the coaches, some players, and some of the staff here at Owen. I researched the business school and decided that it was a great opportunity for me to advance in my education and future.

“It was great timing, and I was very fortunate that the new rule passed when it did. It saved me the hassle of having to petition the NCAA, and any doubts coaches would have that I would be eli-

gible. I made a list of schools that I was interested in, and programs that really intrigued me. Vanderbilt really stood out.”

Kovalcheck earned a starting position at Arizona midway through his redshirt freshman season. In five appearances, including starts in the Wildcats’ final four games, Kovalcheck completed 67 of 136 passes for 880 yards and six touchdowns, earning PAC-10 All-Freshman honors from the *Sporting News*. His freshman campaign ended with Kovalcheck passing for three touchdowns in a victory over rival Arizona State.

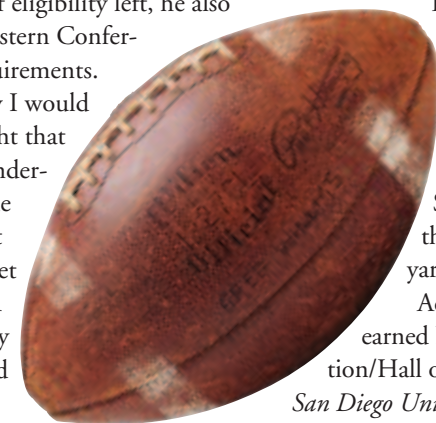
In 2005, he started the first seven games, completing 125 of 220 passes for 1,350 yards and ten touchdowns. As a high school player, he was one of the nation’s most recruited quarterbacks.

At St. Augustine High School in San Diego, he threw for more than 7,000 yards and 70 touchdowns. Academically, Kovalcheck earned National Football Foundation/Hall of Fame scholar honors, the *San Diego Union-Tribune*’s All-Academic Award as a high school senior, and was the recipient of Arizona’s 2003 Academic Champion Award.

SPEAKERS

Grounding CSR in Profits

OWEN STUDENTS FILED INTO WILSON HALL recently, anticipating a Leadership in Practice (LeaP) lecture on corporate social responsibility (CSR). The guest speaker: Home Depot co-founder Bernie Marcus, the wildly successful retailer and philanthropist.



While Marcus did take the podium, he delivered less a lecture on CSR than an intimate, masterfully instructive talk about the importance of businesses “doing the right thing.” Minutes into the talk, in fact, Marcus doused the CSR topic with a dose of reality befitting the self-made retired executive.

“If you don’t have profits, you don’t have corporate social responsibility,” he said. “If you run a business that is profitable, if you have the ability to deal with shareholders, *then* you have the ability to grow. That’s when corporate responsibility comes in.”

Not that his pragmatic approach dilutes his attention to the concern for community that is at the heart of CSR.

Home Depot, for example, has long had a reputation for responding to crisis and disaster, dating back to the Oklahoma City terrorist bombing in 1995.

“We were concerned first with our people, then our customers,” said Marcus, recalling his mindset when he first heard the news. Like a proud father, Marcus told of the two local Oklahoma City managers responding to the disaster with needed supplies — from shovels to tarps— immediately, before even

calling the corporate headquarters for permission.

Home Depot has responded in similar fashion to other disasters, up to and including Hurricane Katrina last year, planning such contingencies in advance with suppliers.

Besides careful planning, the ability to respond rests on the right corporate culture, he added.

Unlike some big box retailers who move in with less attention to the towns or cities they inhabit, Home Depot tries to connect with the surrounding area from the start.

IMPORTANCE OF CLEAR VISION

ALCON, INC., A LEADING EYE CARE COMPANY, is staying focused on the eye and not branching into other areas such as orthopedics, said Cary Rayment, chairman, president, and CEO during his talk as Distinguished Speaker at Owen.

Alcon is the leading manufacturer and seller of ophthalmic pharmaceuticals and ophthalmic surgical products. Selling in more than 180 countries, it occupies the number two position in consumer eye care (excluding contact lenses and eyeglasses) with a global market share of 21 percent. In 2005, Alcon increased its revenue 12 percent to \$4.3 billion and net income 7 percent to \$931 million.

But competition for investment dollars is keen with existence of other key players such as Pfizer, Merck, and Gen-Tech, a host of specialty one-product companies, and other medical device,

pharmaceutical, and specialty companies. “So, it is important we continue to develop our business, share our business model convincingly to the investment world, deliver excellent results, and demonstrate that we can continue to grow in the future, so we can stay in our core competencies,” he said.

Lucky for them that eye care products are in demand for patients from cradle to grave, and demand is only going to become greater. “Treatment of such diseases as glaucoma and cataracts will grow,” he said. About 60-70 percent of their products are used by people over the age of 60. And the over-65 population is growing even faster in emerging markets, he pointed out.

Best known for its contact lens solutions and related products, Alcon has never made contact lenses. Rayment says the reason why is that it has been a slower growth area with three or four

For Alcon, it is important to stay focused on the eye.



major players. But as markets around the world, particularly Asia, turn to contact lenses, there is more opportunity for Alcon and its solutions.

Their vision going forward, Rayment said, is to be the first choice for eye care products in their markets and the most trusted eye care company in the world. “There is a high demand for our services, and most countries around the world are trying to figure out how they are going to pay for health care. If we are going to succeed in that environment, we have to make sure the products we are developing can be differentiated and demonstrate value and position to the nurse and patient.”

SPEAKERS

Building the *USA Today* Business

USA TODAY PRESIDENT AND PUBLISHER Craig Moon is quick to point out one of the things that differentiates his paper from the other two national newspapers, the *New York Times* and the *Wall Street Journal*.

“We are not news snobs,” he told an Owen audience last year when he appeared as a Distinguished Speaker. “The other two are not going to report on *Dancing with the Stars* above the fold. But we will.”

That is not all however. *USA Today*, he explains, is the largest newspaper, with 36 press sites around the country. They also have a different model, gearing itself to the business traveler and being an amenity in most hotel rooms (half of the copies printed are bought by hotels and the other half by individuals), therefore working on an advertising model, rather than a subscription model. The paper has a relationship with C-SPAN and continually looks for ways to extend its brand, such as doing diet challenges. Their dot-com version is surprisingly a small part of what they do.

“We work our way into a community,” he said, noting, for example, that he started a tradition of every new store adopting a charity of their choice, with no input from the corporate leadership.

Marcus himself has hand-picked many causes over the years and as a retired executive is devoting his time to philanthropy. In 2005, he made headlines for his role in creating the mammoth Georgia Aquarium, for which he donated \$250 million. This year, he has been in the news for a \$15 million donation to fund the new Nanotechnology Research Building at Georgia Institute of Technology in Atlanta. Aquatic conservation or nanotechnology, the direction of Marcus’ donations give evidence that he’s a man driven to make a difference, on his own terms.

“They asked me to wear a tie,” Marcus quipped at one point during his Owen lecture. “So I wore this,” he said, smiling and extending to one student a deceptively conservative looking necktie donning a cheery pattern of tiny fish.

“You’re only on this earth for a very short time,” Marcus said later. “Do something good while you are here.”

(Read more about corporate social responsibility in this issue in the “Casting a Wide Net” article starting on page 52.)



David Doherty, left, and Diamond Woodmond load plywood for customers at Home Depot in Biloxi, Mississippi, on Sunday, August 28, 2005, in preparation for Hurricane Katrina.



“We give you a surveillance of what is going on in the country on any given day. That is what people really want. We decide which local story to cover—the ‘Nun Bun Gets Stolen from Nashville’ for example.” The paper, founded almost 25 years ago by Al Neuharth, was designed to fit an increasingly mobile society and to serve as a “unity force” for this country, he added.

The paper’s challenge, he said, is that its brand is bigger than its business. Media success is trickier than ever with its increasing fragmentation and customization, and changing customer expectations. “Customers now tell us what they want to know, rather us telling them what they should know.”

So how can you win in media today? he asked. They are working on providing more unique content, especially in the entertainment area, and of course working to sell more advertising. But they are in a good position moving forward, he says, because surveys show people regard the paper as credible. “We’re also flexible and willing to take risks and try new technologies. We have some of the best writers in the country working for us, and we have fun,” he added.

VB

When the Shoe Fits

After 82 years, Genesco Continues to Create the Market for People Who Want to Wear It

GENESCO CHAIRMAN, PRESIDENT, and Chief Executive Officer Hal Pennington and Senior Vice President Jon Caplan, MBA'82, recently met with students and faculty to talk about how the 82-year-old Nashville company reinvented itself to be a premier footwear and headwear company. Genesco, a \$1.38 billion company, has the following divisions: Johnston & Murphy (men's premium footwear and accessories), Journeys (teen), Journeys Kidz (kids five to 12), Underground Station (urban market), Dockers Footwear (men's casual), and Lids and Hat World (athletic fashion headwear). Others participating in the roundtable were associate marketing professors Steve Hoeffler and Jennifer Escalas, second-year students Lindsey Abel, James Peters, Krysten Curl, Jillian Danker, and *Vanderbilt Business* magazine editor Beth Matter.

Matter: Can you tell us the history of Genesco?

Pennington: To reflect the company diversification, in 1959 the company changed its name to Genesco. I joined Genesco in 1961 when it was a different company, largely a manufacturing com-



Genesco, a strong player in shoes and headwear, has more than 1,870 retail stores, with divisions ranging from men's premium footwear to urban market.

pany. It started in 1924 as Jarman Shoe Company. The name later changed to General Shoe Co. because they started to make shoes other than for Jarman. In the mid-50s, there was an anti-trust suit. Genesco, then a Fortune 500 company, could no longer acquire footwear companies, so they made other acquisitions, among those a controlling interest in a holding company which was Tiffany and BonWit Teller. They also bought swimsuit companies, pajama

companies, all sorts of things. During the 1980s, Genesco was heavily leveraged, and the divestiture started.

Caplan: I joined Genesco in 1982 and worked there for 10 years, and then went to Stride Rite Corp. Thanks to Hal, I had the opportunity to rejoin Genesco in 2002. In 1982, it was in a pretty troubled situation—we had divisions we weren't sure what to do with, and off shore sourcing had already begun.

Pennington: Then came the divestiture and closing of factories. Jon, before leaving Genesco was running the Western Boot business, which at the time was the most profitable division, but we later divested that too. In the mid-90s, we owned a leather tanning company and tanned our own leather.

Caplan: We were vertically integrated, all the way from retail in some cases back to the hide. The only thing we didn't own was the cow.

Pennington: In the mid to late 1990s, the company came into focus of what it is today—a strong player in shoes and headwear. The company last year was at \$1.28 billion. We no longer have manufacturing facilities but have 1,870 retail stores. Journeys represents 46 percent of the revenue. Johnston & Murphy is 13 percent of the company. Our most recent acquisition—the first in many years—was our headwear company, Hat World, now representing about 23 percent of the company. Underground Station is 13 percent. We also have a license from Levi Strauss for the Dockers brand of men's footwear. Within the Journeys group, we have Journeys Kidz. And we have launched a new concept called Shi by Journeys.

Abel: What are the crucial elements in leading and managing successful change?

Pennington: You start with solid people who have experience and balance and who have already been through difficult times. They should also have a true competitive spirit. We like to understand what is going on in the marketplace and to make sure the team understands the purpose of change, so that it is not being done haphazardly. Johnston & Murphy grew in the early '90s, and then got off track. I asked Jon if he would come back to help sort this out. He has done a remarkable job in repositioning Johnston & Murphy.

Caplan: Rates of change vary by category of consumer products. Soft goods introduce new product lines three or four times a year. Switching from a manufacturing-oriented environment to one where we focus on what the

consumer wants to buy was a watershed event for us. That had the biggest impact on our company.

Hoeffler: Part of being able to change is knowing the consumer and where tastes are changing. What do you do to get a handle on that?

Caplan: In retail, you deal directly with the consumer and get more feedback than if you make the product and sell it through your retailer or another distributor, who then sells it to the consumer. In our case, Journeys deals with the most change the most quickly, because their target consumer is teenagers. In most cases, their merchandisers come from the stores, so they are used to dealing with the consumer on a one-to-one basis. In most cases, they get to hire their consumer, and their consumer works in the store. Journeys also works with brands that are also doing market research. Their job is to compile that information, synthesize it, and figure out what is right for their particular segment.

Pennington: Since Johnston & Murphy is a brand we own, and because we are responsible for the design and development, the pipeline is much longer. That customer doesn't change quite as quickly as does a teen customer.

Danker—Could you address what percentage of your overall marketing strategy is dedicated to online strategy?



Genesco has found brand extensions, such as small leather goods, luggage, and leather and cashmere outerwear to work well for them.

DANIEL DUBOIS

DANIEL DUBOIS

*To lead and manage **SUCCESSFUL** change, you start with solid people who have experience, balance, and a true **COMPETITIVE** spirit. A team needs to **UNDERSTAND** the purpose of change so it is not done haphazardly.*

Caplan: We had the backbone of the catalogue business and then migrated toward the Internet. At Johnston & Murphy, the products offered online are the same products you find in the stores—so we are part of the bricks and clicks movement.

Pennington: The Journeys Kidz catalogue originally was an insert to the Journeys catalog, but recently we launched a separate Journeys Kidz catalogue. The Underground Station consumer interestingly does not shop online as much as other consumers. Lids has a strong Website. The average

Lids store size is about 600 square feet, with approximately 1,000 SKUs, but the Website offers approximately 8,000 SKUs.

Caplan: At Johnston & Murphy, we have been able to capture email at a significant rate at point of sale. This speaks to the trust of Johnston & Murphy as a brand. Other companies are pleased to get 20 percent, and we are capturing at more than twice that rate.

Curl: With decline of mass media effectiveness in advertising, have you looked at other kinds of new marketing

strategies or tactics like buzz marketing or mobile media, particularly with your target market with Journey, and Shi and on-the-go consumers?

Pennington: With Journeys, we do a great deal of grass roots marketing. Teen customers don't want to be sold. They want to be the ones to find things. Journeys operates with national brands, and a lot of their advertising is tagged advertising. The brand tags Journeys as the place to buy it. Journeys also does a great deal of work at events. This year they did a six city tour of a skate and motocross event.

Caplan: At Johnston and Murphy, our marketing initiatives are broad based. We still use conventional media. You can pick up *GQ* and *Esquire* and see the brands. We have done some local market level media and events, and have also done buzz marketing with a new product release. Our most successful effort, while not really considered traditional marketing, has been our airport stores. They have introduced the brand to business travelers, who are time deprived and don't hang out in malls, and often times this customer doesn't even like to go shopping as much as some consumer segments.

Peters: How did you come by the brand extension of the luggage at Johnston & Murphy, and are you continuing to look at that among other brands across the company?

Caplan: We always look for ways to

grow and make the experience more beneficial to both the consumer and to us. If you think of footwear as an accessory, there are other natural extensions. Small leather goods, luggage, leather and cashmere outerwear have worked well. With the luggage, we used a licensed partner to help develop that because we didn't have the expertise in-house.

Pennington: The brand equity in the Johnston & Murphy name is incredibly strong. When we travel, we talk about the company, and people might not know us, but when we mention Johnston & Murphy, they immediately know who we are. Journeys is also becoming a brand in its own right, even though we don't print Journeys in any of the shoes.

Abel: What is your logic and reasoning for opening new shoe stores, and what competitive analysis do you do, and how does that affect your marketing?

Pennington: Journeys Kidz was started about five years ago because we had small young people come into Journeys stores saying they wanted to buy a shoe just like their brother's, but we didn't have the size. Vendors didn't make the smaller sizes, but now they do. Shi by Journeys was much the same thing. About 50 percent of what is sold at Journeys is sold to young women, but we tend to lose them in their twenties as they shop elsewhere. We hope to get the young man from Journeys over to Johnston & Murphy at some point, but



Caplan: "Switching from a manufacturing-oriented environment to one where we focus on what the consumer wants to buy was a watershed event for us. That had the biggest impact on our company."

there was no place for the women to go. Our merchants felt that the person shopping in Journeys really enjoyed the specialty environment. About two years ago, we started to formulate in our mind, what would a store for her (Shi by Journeys) look like? Last year, we said let's go for it, and the first Shi store opened near Nashville.

Market research for this was primarily intuitive. It came from our knowledge of the customer and believing that young 20- to mid-30s customers really had no where to go to shop for shoes except department stores. That customer wanted fashion, but it wasn't available to them.

Hoessler: It sounds like you started with Journeys, and then there was greater levels of segmentation. Some people had issues going into the store where toddlers bought shoes too. If you are a cool teen, that is not the place for you.

Pennington: We have extended the brand on each end in our various divisions using the experience of the people in the infrastructure. Journeys Kidz was started with the infrastructure of Journeys, using the same buyers. As we grow Shi by Journeys, we will add people to it and start segmenting it.

Continued on page 59



Pennington: "We have extended the brand on each end in our various divisions using the experience of the people in the infrastructure."

Project Pyramid

Student Determined to Change the World from Bottom Up Through Smart Business

By REHAN CHOUDHRY

IT WAS 7 A.M. ON SATURDAY, AUGUST 30, 2003. I was on my 14th consecutive day of excruciating pain. Up to this point I was able to bear it. Through a mixture of aspirin and breathing exercises, I could control it to the point where I could finish out work days or make a simple drive home. With each passing day, these simple tasks became increasingly difficult to accomplish. It started as what felt like a simple muscle pull in my neck. Now, nearly two weeks later, I was slipping in and out of consciousness while being rushed to Reston Hospital Center's emergency room.

I cried the entire drive to the hospital. I remember my mother helping me out of the car and into the ER lobby. My mom explained to the nurses what was going on, mumbling something about chest pains and that I needed to see a doctor. The nurse looked at me in shock, called the emergency room staff, and rushed me onto an ER bed. One nurse offered me a small dose of morphine to ease the pain while another hooked me up to the EKG (machine used to track one's heart rate). Within seconds, the doctor diagnosed my condition and was explaining to my mom that I was having a heart attack.

REHAN CHOUDHRY is a second-year student at the Owen School.



Choudhry has worked with classmates to develop a sustainable business school model dedicated to helping millions of the world's poorest people escape poverty.

She went into shock, grabbed her cell phone, and called my father. When he answered, the only words she could get out were, "I killed him! I killed him!" Being a physician, she immediately blamed herself for not diagnosing my condition earlier. The nurse grabbed the phone from her hand and explained to

my father that his son was suffering a massive heart attack. I was 23 years old.

Less than an hour later, I was flown in an emergency transport helicopter to Fairfax INOVA Hospital's Trauma Center, where they would perform double cardiac-bypass surgery on me. It still surprises me that I only vaguely remember

the helicopter ride. I could not even tell you what I was wearing that day. What I completely remember is the sense of relief I felt when I woke up in ICU after five hours of surgery to find that the pain had finally stopped.

Six months after recovering from surgery, I narrowly escaped a stroke as a result of a cardiac infection called bacterial endocarditis. I spent a week in a hospital in Virginia and another five weeks receiving intravenous antibiotics through a PICC line (a semi-permanent IV). Almost a year after that incident, I suffered another bout of the infection and narrowly missed a second stroke. I underwent treatment for another six weeks and was cleared immediately after that treatment ended.

That last week in the hospital was the worst for me emotionally. It was the first time I had cried since the actual operation two years earlier. I remember lying in my hospital bed late one night thinking to myself, "There has to be more than this hospital room. There needs to be more to life than this." It was at that moment I decided to take control of my life and my future.

An MBA Gives You the Framework and Tools to Make a Difference

The question at hand was: How do you take control of your life and what is the best avenue to take? It took months of networking and research before I decided to pursue an MBA. My rationale for this decision was that if I were going to make a difference in the world, I would have to gain a skill set that I could only attain by learning from leading business professionals and working side-by-side with the smartest, hardest working aspiring leaders. Little did I know, but in the coming months I would learn, that those two groups were

one and the same. I was going to go to business school.

I researched schools for months before I stumbled across this city called Nashville, Tennessee. My mom flew in to visit Owen with me, as I was still taking the IV antibiotics twice a day. When we drove onto campus, I immediately knew I was home. After my visit, I poured my heart and soul into my application essays. I was determined to show the Admissions Department that I was the perfect addition to the MBA Class of 2007. After sending my application, I waited. ...and waited...and waited. I was at work when I received this email:

"We are very pleased that you have chosen to apply to the Owen Graduate School at Vanderbilt University. We would like to inform you that you have been placed on our Wait-List for the Class of 2007. ..."

THE WAIT-LIST! I couldn't believe it. I flew into Nashville the very next day, stormed into Dan Warner's office (scaring him half to death) and demanded another interview. I still thank him for accepting my request that day and not having me arrested on the spot. Despite (or because of) my irrational behavior, I received my acceptance letter less than two weeks after that visit.

Many people would not tell this story. Many would not promote the fact that they initially were wait-listed for their class. I, on the other hand, take pride in it and hold it close to my heart. Every day of my MBA I remember the road I had to take to get here. I cherish my experiences and use them as drivers for my future at Owen.

Consequently, my goal is to positively impact the Owen community

The goal is for students to learn that as future business leaders, great power comes with great responsibility.

with every project I undertake. During my first year, for example, I served my class as their OSGA sponsorship & social coordinator, as a recruiter host for the Career Management Center, and as a prospective student host for the Admissions Department (the same group that wait-listed me!). Additionally, I am managing editor of the *Bottom Line* student newspaper and co-president (with Heather Webb '07) of *100% Owen*. I was also the recipient of last year's Unsung Hero Award and one of the recipients of the Clarcor IMPACT! Scholarship.

My projects last year were focused on the internal Owen community, but this year I have taken on projects with a much broader reach. I am part of the launch of a new organization titled *Project Pyramid — Changing the World from the Bottom Up*. Our mission is derived from the book *The Fortune at the Bottom of the Pyramid* by CK Prahalad. In

Continued on page 66

INSIDE

Marketing *Loyalty Myths, Imagine the Customers* | Economics *Positive Economics of Immigration* |

MARKETING

Loyalty Myths

BY TIMOTHY KEININGHAM, MBA '89

LOYALTY MYTH 1: *The number one goal of any firm should be customer loyalty.*

In 1960, Theodore Levitt wrote "Marketing Myopia," one of the most widely quoted and reprinted *Harvard Business Review* articles. The article warned of the dangers from firms' short-sightedly focusing on their products and in doing so, overlooking the needs of their customers. Levitt insisted, "The organization must learn to think of itself as not producing goods or services but as buying customers, as doing the things that will make people want to do business with it."

Without question, Levitt was absolutely correct. Firms exist to satisfy customer needs and wants and survive only by doing so. During the time of Levitt's article, however, many firms had lost sight of why they existed, arrogantly believing that "the market will buy whatever we choose to sell." This was during the same era that Japanese auto manufacturers were making inroads into the U.S. markets by listening to consumers' concerns and building smaller vehicles. U.S. auto manufacturers continued to churn out large, gasoline-guzzling vehicles not



because of their inability to make smaller cars, but because profit margins were significantly higher on larger vehicles.

The world has changed a lot since then. Today most managers recognize that losing sight of customer needs is a recipe for disaster, though we might argue about how their firms actually address those needs.

Levitt's words still ring true, however. The problem is how the misinterpretation of Levitt's maxim has evolved in the modern era, which can loosely be summarized "customer loyalty is the number one goal of any firm." Though the emphasis may be exaggerated, business news stories demonstrate that the message is often forgotten. It is not difficult to find articles like the following:

- "Broke But Beloved"—"Say this for WINfirst, the troubled cable, telephone, and Internet provider: It has very loyal customers. Since filing for Chapter 11 bankruptcy protection..."
- "Loyal Following Couldn't Keep Jacksonville, Michigan-Based Jacobson's Going."
- "Garden Botanika, Inc., the Redmond-based cosmetics and personal care products company, announced today it has filed a vol-

untary petition under Chapter 11 of the United States Bankruptcy Code. ...Garden Botanika remains an industry leader with high sales and extremely loyal customers."

In fact, many of the dot-com disasters could have reported similar results: *loyal customers but no profits.*

The fundamental purpose of any business is to identify and satisfy customer needs *at a profit*, an idea Theodore Levitt certainly embraced. The problem is that customer loyalty *can be purchased*, and frequently is. But to paraphrase an old saw, you can't buy things for a dollar, sell them at 99 cents, and make up the difference in volume.

TIMOTHY KEININGHAM is SVP and head of consulting for Ipsos Loyalty. The above is the first of a number of loyalty myths and truths in his book, *Loyalty Myths*. Excerpted with permission of the publisher John Wiley & Sons, Inc. Copyright © 2005 by Timothy L. Keiningham. This book is available at all bookstores, online booksellers, and from the Wiley Web site at www.wiley.com or 1-800-225-5945.

MARKETING

Imagine the Customers

BY BETH MATTER

MANY OF US HAVE TRIED SELF HELP approaches of imagining positive outcomes to help us get motivated to achieve them.

BUSINESS

Stock Options *IRS Reg. 409A* | Health Care *Not-for-Profit Hospitals: Priced Right*

Escalas uses anecdotal information from her own swimwear company in class to underscore points about marketing.

JENNIFER ESCALAS, ASSOCIATE PROFESSOR, in her research has found that if you get people to imagine the process of using a product, rather than a favorable outcome from using the product, you may have more success in getting people to try the product. She warns, however, against a blanket statement that advertising should focus on process rather than outcome. "It depends on whether there are strong reasons for consumers to use your product, and whether you are sure you are going to reach your target audience, and if they need your product. If that is the case, process works better. But if your product is only so-so, you might want to keep the focus on outcome, because you don't want consumers focusing on process, evaluating it, and rejecting forming a plan for using it."

Research in psychology shows that that often doesn't work, says Jennifer Escalas, associate professor of management (marketing), who delves into applied psychology in her research concerning consumer narrative processing, advertising, and brands.



Most advertising shows good benefits of using a product, she points out. Use this flex machine and your abs will look like steel. Or dye your hair with this product, and you will be sexy. "My research shows, however, that if you get people to imagine the process of using the product, rather than a favorable outcome, you may have more success in getting customers to try the product," she says.

She borrows from research in psychology showing that students who imagine they are studying for exams do better on tests than students who just imagine themselves getting an A.

"I have taken that notion and applied it to advertising to show, for example, that consumers who imagine themselves taking a vitamin everyday have higher purchase intentions for the vitamins than consumers who are asked to just imagine feeling good because they are taking the vitamins."

Escalas also studies brands, particularly how brands are meaningful to consumers because of the psychological security derived—fraternity members, for instance, who choose brands to identify with their particular group and differentiate themselves from others. Early research tended to look at people as having only one facet to their personalities, and one brand to match, whereas recent research acknowledges different facets of people's

personalities and various brands to go along with that. "I am Jennifer the mother, Jennifer the daughter, Jennifer the wife, and Jennifer the professor, and in each of those roles, there are brands that are important to me. When I bought my car, I was thinking mainly of the safety of my family, but when I bought my computer bag, I was looking for something fun and professional."

The newly appointed director of Owen's eLab, Escalas also brings real world marketing to her classroom through Agonswim.com, a custom dyed swimwear company, owned by her and her husband, Rafael, an Olympic swimmer (1500 freestyle in the Moscow and Los Angeles Olympics for Spain).

"When I am teaching theoretical knowledge, I am teaching students important analytical tools they will use later on," she says. "But the anecdotal information I give about my own company—correlation between price and quality, for instance—gives me credibility. And I can tie anecdotal information back to my research. We have gotten stories back from customers about how Agon swimsuits helped build team spirit and how their suits helped them win a race. It has become a symbol of their accomplishment, and they are now more attached to the brand."

IMMIGRATION

Positive Economics of Immigration

BY DAVID PARSLEY

IMMIGRATION POLICY has definitely been a hot-button issue. A recent CBS News poll found that nearly 9 out of 10 people

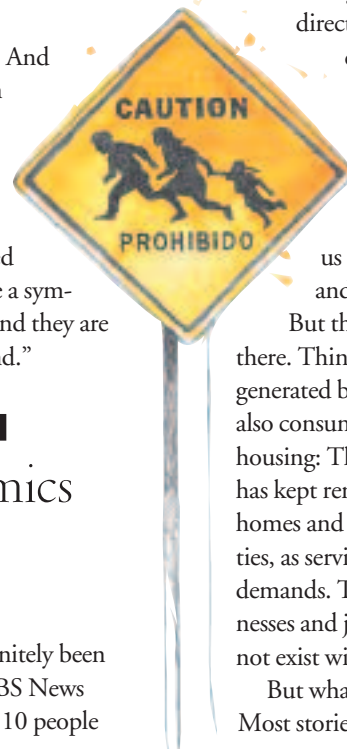
surveyed thought immigration was a serious problem. As an economist I find this startling. The issue reminds me of other contemporary debates where much political capital is expended on either unlikely events (deflation in the U.S) or misdiagnosed problems (the alleged link between the Chinese currency and the U.S. trade deficit).

First, consider the economic benefits of immigration. Generally speaking, immigration in the United States is of two types: immigrants possessing very high levels of skills (the best and brightest); and immigrants possessing low levels of skills. The perceived problem seems to be focused on the latter, so I will limit my comments to that area.

Most of us recognize that prices we pay for certain things (gardening/landscaping services, household services, restaurant services) are lower because of the increased supply of people (immigrants) willing to do these jobs. Increasingly, however, immigrants are working directly in the \$600 billion construction services industry, contributing to the tremendous growth in this sector of the U.S. economy. The lower prices give us more real income to buy and do the things we want.

But the story doesn't stop there. Think about jobs that are generated because immigrants are also consumers. A key example is housing: The demand for housing has kept rental values high, both for homes and for commercial properties, as services grow to fulfill ethnic demands. These are net new businesses and jobs, since they would not exist without immigration.

But what about the cost side? Most stories mention the strain on



JAC

JIM ATHERTON, MCT

JULIE NOTARIANI, MCT

government finances. Yet, what is generally missed is contribution to tax revenue. The increased business tax revenue from those firms specifically targeting immigrants is one source. Many illegal immigrants also use "made-up" social security numbers and contribute to the social security trust fund while no corresponding government liability is incurred. We also can't overlook taxes immigrants pay indirectly as part of their rent, or directly via home ownership, user fees (auto registrations, for example), and sales taxes paid. Immigrants contribute to government tax revenue in these ways and others, and a proper accounting needs to acknowledge these contributions.

But what about the costs of increased unemployment and lower wages? Among the studies that have attempted to measure these effects, the consensus is that there is only a tiny effect—on the order of *plus* or *minus* 1-2 percent. Why is the effect of immigration so small? The primary reason is that the growth of low cost labor generates opportunities for businesses to grow. Any change in the status quo generates both winners and losers. Some domestic workers lose their jobs while others get promoted to new positions managing the new workforce (with increased pay). When measuring the costs/benefits, we need to be careful to include both aspects. For the nation as a whole, unemployment (4.8 percent) is below long-term 1960-2006 averages (5.9 percent)—so there doesn't appear to be an overall unemployment effect either.

So why all the fuss? I speculate it is political: Politicians want to avoid bruising debates on issues where a lot is at stake, and instead take "tough" positions on small issues where chances of alienating voters are fewer. Any domestic policy initiative—like fixing health care, the budget deficit, or campaign finance reform would undoubtedly engage debate both from the

public and other politicians. Debate stalls "progress," and makes politicians look ineffective. The other option is to focus on arcane issues that most experts consider minor: Bash the Chinese on exchange rates, the Europeans on trade, or undocumented aliens. On these issues, the debate is pretty much one sided, and the level of rhetoric doesn't have to match the facts.

DAVID PARSLEY is an associate professor of management, specializing in finance and strategy and business economics.

STOCK OPTIONS

IRS Regulation 409A: What It Means for Today's Venture CFO

BY ERIC HALL, MBA '78

PICTURE THIS: YOUR COMPANY, MyStock.com, goes public and you receive a letter from the IRS saying you owe taxes on options exercised that were deemed to be issued below "fair market value." To add insult to injury, you're also being assessed a 20 percent penalty and interest on the amount owed. Unfortunately for you, the IRS' recourse is against you, not MyStock.com, for those options that were considered nonqualified deferred compensation (NQDC) under Section 409A. You could sue MyStock.com for issuing the stock options improperly, or you could band together with the likely others and file a class action against the company. If you're the CEO or CFO, you should be worried that unhappy shareholders may prevail, and you may be subject to legal action under Sections 302, 304, and 906, CEO & CFO Certification, and CEO & CFO Bonus Forfeiture under Sarbanes-Oxley. All for not following the guidelines



set forth in Section 409A.

Sound far fetched? Not really. Many start-ups today are still using the old and financially unsubstantiated rule of thumb that common stock price is one-tenth of the most recent preferred round. This rule of thumb is what creates the potential problem for many private companies. If the option was granted before January 1, 2005, fair market value must have been determined in good faith by the company. The IRS will judge whether or not the determination was made in good faith based on all relevant facts and circumstances. Unfortunately, the only form of fair market value determined in good faith accepted by the IRS is that of an independent and well-qualified expert. If the option was granted after January 1, 2005, fair market value must have been determined using a reasonable valuation methodology, and the company must have intended to grant the options with at least a fair market value exercise price. The

AICPA publishes an excellent practice guideline, "Valuation of Privately-Held-Company Equity Securities Issued as Compensation," that outlines the various methods of enterprise valuation and allocation of enterprise valuation among preferred and common stock. For many early stage companies, discounted cash flow (DCF) is the preferred method since market comps may be difficult to obtain or asset valuation method may not be appropriate. Other relevant factors such as control premiums and discounts for lack of marketability should also be considered. DCF assumes that the company has a forecast financial plan at least three years in duration.

So, who can perform a fair market valuation? For a seed or first round of funding, the CFO would be acceptable if he or she has experience performing a DCF analysis and can adhere to the AICPA practice guidelines. For companies in their second or later rounds, it is recommended that the company obtain a valuation from an independent appraiser that satisfies the IRS requirements under Section 401(a)(28)(C) of the Internal Revenue Code. This recommendation is based on risk and assumption of said risk. The more rounds of financing a private company raises, the greater the risk that an option grant may

Continued on page 58

HEALTH CARE

Not-for-Profit Hospitals: Priced Right

BY BETH MATTER

FOR-PROFIT HOSPITALS BUYING NOT-FOR-PROFIT HOSPITALS may indeed be getting a deal, but not a "steal" as previously thought.



The concern that investor-owned chains buying not-for-profit hospitals at discount prices (because of weak governance and lack of savvy management) would be walking away with community assets is unfounded, says Larry Van Horn, associate professor of management (health care), who joined the faculty this fall.

This conjecture, however, led a majority of states during 1995-98 to pass legislation requiring oversight of purchases by the attorneys general, which in turn increased the cost of purchasing a not-for-profit," Van Horn says.

He and his colleagues did an analysis of stock price reactions of for-profit hospitals surrounding announcements of purchases of not-for-profits. "If in fact they were purchasing them at a discount, we should have seen an abnormal stock price movement around a purchase of a not-for-profit and not around the purchase of a for-profit. In fact, we didn't see evidence of this whatsoever."

Their evidence did point up, however, that not-for-profit hospitals were fairly priced—or in other words, a lower price paid for a not-for-profit was appropriate given that a not-for-profit would have to be converted into a for-profit hospital and the many costs inherent in that.

But after the legislation, "there was a significant reduction in the number of not-for-profits purchased in part due to the increased cost of compliance," he says. "This might not be a good thing if not-for-profits are struggling and need to find sources of capital."

Van Horn came to Vanderbilt from the Simon

School of Management at the University of Rochester, where he was creator and director of the Institute for Health Care Management and developed the school's MBA program in health care. At Owen, he is teaching courses in Health Care Management and Microeconomics.

He moved here because he believes there is no other business school better positioned geographically or programmatically to establish itself as the number one health care MBA program.

"In the world of health care, Nashville is at the epicenter of for-profit health care delivery, and by association, Vanderbilt and Owen are on people's radar screens. The very tangible and palpable commitment on the part of the medical center and the university administration and the business school leads me to believe we are going to be successful. I want it to be the case that in 5 years, when students want to get a health care business education this is the only place they consider." **VB**

RICK REASE, MCT

DANIEL DUBOIS



LARRY VAN HORN, ASSOCIATE PROFESSOR, AND FACULTY DIRECTOR FOR HEALTH CARE, has studied executive compensation at not-for-profit hospitals and found that CEOs of those organizations were not receiving excessive compensation. "That had been a concern with investor-owned firms, and the thought was that it would be worse at not-for-profits, but we did not find it," he says. "In absolute terms, CEOs at not-for profits were potentially extracting as much as a 10 percent wage premium, but that is not particularly significant."

One concern he did find however is that boards of not-for-profits that have a higher percentage of physician representation tend to receive lower donations. "Savvy donors know that on such boards, physicians may funnel monies toward their objectives, rather than the interests of the donor."

Van Horn's research has shown that concern over investor-owned chains getting a "steal" when buying not-for-profit hospitals is unfounded.

Reforming Health Care

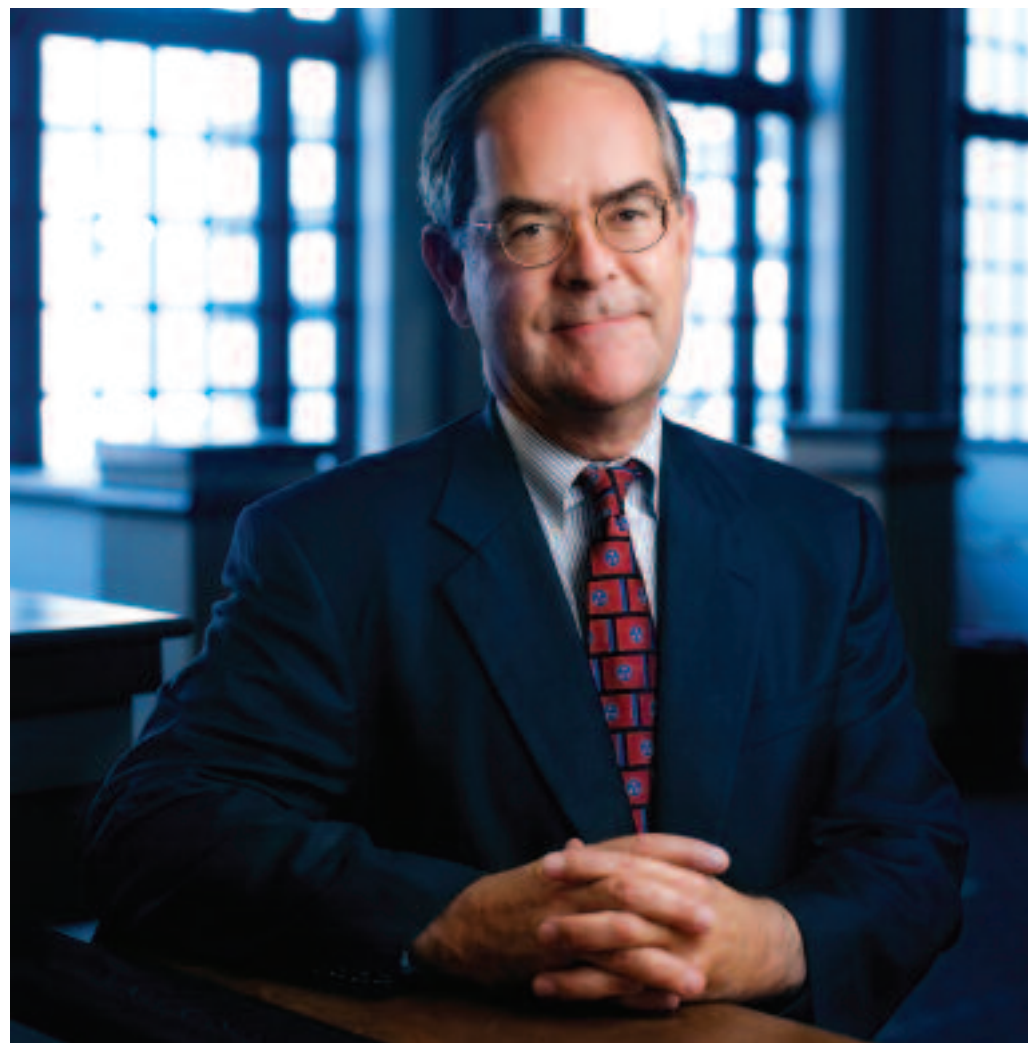
Congress Will Have to Reform Health Care and Soon, Because We Have No Other Choice

By REPRESENTATIVE JIM COOPER

IT IS UNUSUAL FOR A SITTING CONGRESSMAN to teach in any business school. My course on Health Care Policy is designed to help Owen students understand heavily regulated industries, but particularly health care—the most regulated of all.

My purpose is to give Owen students an advantage over their peers in other graduate business schools. Business students are usually good at free-market economics, but tend to have more trouble when government is heavily involved. My job is to help them understand what an appropriate government role would be; few can be perfect libertarians when it comes to their own health. Depending on how you measure it, government controls at least half of health care, but perhaps as much as 93 percent.

I first came to Owen as an adjunct professor in 1995 after I thought I'd retired from Congress. As a representative, I had championed the leading rival to the Clinton health plan, a "managed competition" proposal that borrowed heavily from the so-called "Jackson Hole" reformers. After the bruising 1993-94 Washington battles over health care reform, I was intimately familiar with the leading players and proposals. I did



Cooper: The U.S. health system delivers both the best medicine and the worst.

my best to share that knowledge with my students.

Some of my early experience with health legislation is covered in the book, *The System: The American Way of Politics at the Breaking Point*, by the veteran Washington journalists David

Broder and Haynes Johnson. But I had also been a health care lawyer at the Nashville firm of Waller Lansden, where I had worked, for example, on one of HCA's first financings: a convertible subordinated Eurodollar debenture offering of \$80 million.

During my early teaching career at Owen (and what turned out to be an eight-year hiatus from Congress) I became an investment banker, first at Equitable Securities in Nashville, and then at an institutional private placement firm I co-founded, Brentwood Capital Advisors. Both of these firms did a number of health care financings, mergers, and acquisitions. I also served on the boards of directors of several publicly-traded health care companies, chairing the audit committees of three of them.

As a result of these varied experiences, I have a unique perspective, having seen health care from a lawyer's, politician's, professor's, banker's, and board member's point of view. I have also been a patient. Therefore, unlike the fable of the Blind Men of Hindustan, I can see the entire health care elephant when I am touching its trunk, legs, and flanks.

When I returned to Congress in 2002, I thought I would have to give up teaching at Owen. But Congress proved less time-consuming than it had been during my earlier tenure. In 2006, for example, Congress met for fewer days than any time since 1948.

Under the able leadership of Jon Lehman, the Owen Health Care MBA program has taken off, with a variety of courses designed to make the Owen health curriculum the best in the country. I am proud to be part of such an effort, and it helps me keep up with the vast health care literature. My personal library, already large, grows faster than its shelving.

Medicare Needs to be Completely Reworked

Congress will have to reform health care, and soon, because we have no other choice. Medicare, the nation's second largest health program, after Medicaid, is already \$20 trillion over-promised or underfunded, depending on your perspective. That fiscal gap is hard for even the best MBA students to understand, even with scientific notation. The Medicare fiscal gap is far larger than the GNP of the U.S. for one year. It is seven times the size of the federal budget. And that is just the shortfall in one of our major entitlement programs.

To reform Medicare, simply cutting benefits or raising taxes will not be sufficient. The public will not stand for slashing benefits in half, or doubling payroll taxes, the steps that would normally be required in order to restore Medicare to fiscal balance. The program will have to be completely reworked in order to make it more efficient and to provide higher quality care.

I touch on these enormous fiscal issues in my foreword to a new book, *The Financial Report of the United*

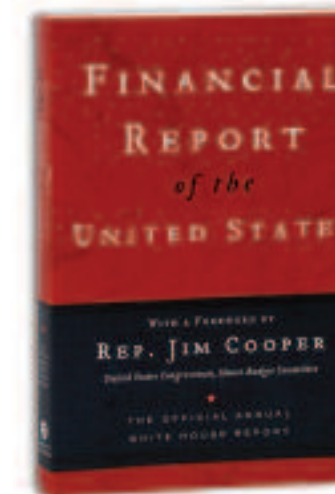
States, just released by Nelson Current publishers, a division of Thomas Nelson. This is a reprint of a startling official government document that is, literally, the annual report for America. You've never seen it or heard of it, nor have most elected officials. It uses the same accounting (accrual) and same

format (e.g. management's discussion and analysis) that you are accustomed to seeing in any public company annual report. You already get your favorite company's report, why not your favorite country's?

The news in *The Financial Report* is very discouraging. Because federal government has never used accrual budgeting, hardly anyone knows how different the accrual bottom line is from cash accounting deficits. *The Financial Report* indicates that our national deficit is at least twice as large, and probably

ten times as large, as you've been told. That's the difference between a common cold. ...and cancer.

With deficits of \$760 billion annually (counting civil service and veteran's benefits), or \$3.3 trillion (if you include Social Security and Medicare), America will have to make fundamental changes in many of its largest programs, but particularly in health care.



Cooper wrote the foreword to this book, a reprint of a document that is literally the annual report of America. The news is discouraging, he says.

Continued on page 60

Bridge to Tomorrow

Deloitte Consulting Spans

Time and Place

By BETH MATTER

WITH AIRLINE TICKET AND EVER-PACKED suitcase in hand, James Rile, MBA'01, once again heads out the door of his home in Cincinnati to his assignment in Connecticut. Or Virginia. Or wherever his consulting skills are needed.

Rile, a senior manager in Deloitte Consulting's Strategy and Operations practice, loves the life of a consultant—a life that others often find grueling.

There's the almost 80 or 100 percent travel and the long hours that come with the job. And it's a new job every three, six, or nine months, working with new clients and new industries on new problems. You have to stay three or four steps ahead of your client. And clients' expectations continue to increase higher and higher every day.

"We are helping our clients solve problems that aren't easy—if they were easy, they wouldn't need our help," Rile says. "Their problems usually have a significant amount of urgency attached to them, they are extremely high profile, and are large and complex."

This intensity is increased by the assignments' time limitations, driven both by the amount of time the client can afford or can wait for a solution. "It creates an unpredictable but challenging environment. When you head out in the morning, you think you know how your day may shape up, but by the time you leave at night, it has turned out to be completely different."

For the last three years, Rile has focused on lean operations and improvement, predominantly in the life sciences industry. His challenges have included handling



James Rile of Deloitte Consulting may be based in Cincinnati, but his workplace is really Anywhere, U.S.A.

increasingly more complex projects, helping clients' grow their businesses rapidly, and adapting to dynamic environments from a regulatory perspective as well as from a domestic and international competition perspective.

A recent example is a client whose parent organization forced growth restrictions on head count. "They were in the position where they were trying to become more

profitable and had significant expectations for growth, but their resources were capped. So they asked for our help. We helped them understand what was going on in their disparate divisions that played a role in marketing and customer education, and developed a way for them to carve out about 35 percent improvements in productivity. This meant they could take on 35 percent more work with the existing

grow and develop to become advisors to senior executives, or to become a senior executive themselves, and either way is fine with us," Rile says.

Recruiting at Owen and Vanderbilt is important to Deloitte Consulting, and they have maintained an important and consistent presence at the school through good and not so good years in the industry. The recruiting story started with Tom

cute what we have recommended, and that is the hardest part."

Owen students fit well with this, because "they are willing to roll up their sleeves, tackle challenging problems, and work hard, and that is what our company is known for," Rile says, adding that Deloitte sponsors its business analysts to attend business school, including current second-year Owen student Jamie Robin-

A consultant's challenges include handling increasingly more complex projects, helping clients' grow their businesses rapidly, and adapting to dynamic environments from a regulatory perspective as well as from a domestic and international competition perspective.

Lawson, MBA'79, who is based in Atlanta, working in the Consumer Business and technology practice; he put Owen on the Deloitte Consulting map.

Deloitte's only asset is its people, and we know that if we don't do a good job of hiring, developing, and training those people, they fail, Rile points out. The talent war has revved up, and, just like their client companies, Deloitte is competing for the best and the brightest candidates. Deloitte, also like other consulting companies, is in search of bright, energetic, hard-working people, and they have no trouble finding them at Owen. "We also need people who are action oriented—who can work along side and help the client, rather than sit off in a room somewhere and later present a report to the client." This is important because Deloitte, Rile explains, is not only known for its strategic thinking, but also for their executable strategies—taking their ideas and making them work. "We actually help clients exe-

son. "The environment of the school supports and fosters group work, so students integrate quickly into the Deloitte culture, which is also very team-oriented."

At its core, Rile says, Deloitte's consulting business is all about working with its clients to solve difficult problems, taking them to new places, or to help them pass safely over rough waters and troubling times. "It is similar to the process of building a bridge," says Rile. "Sometimes clients know where they want to go but can't figure out how to get there and how to overcome challenges. Sometimes they know they want to move somewhere else, but have no idea where. Our job is to help them think through the situation, develop creative solutions, and then to execute and produce results."

The Owen/Deloitte relationship has been worthwhile and beneficial to both institutions over the years, he adds, and will continue to bridge people and solutions long into the future. **VB**



Course Work


Enhancing Networking Skills at the Finance Golf Tourney

Photography By NEIL BRAKE

More than 30 finance alumni joined students in September for the annual finance club golf tournament and career symposium. In addition to serving on career panels the previous day, some alumni mingled and mentored students over 18-holes. Five of the alums featured here talk about the importance of reaching out to students and to each other.



Lisa Ryder, MBA, '06, corporate associate, National City, Cleveland. Ryder was hired into in a one-year rotational program within the capital markets division and is currently working on interest risk management of National City's recent acquisitions. "Unlike in golf, there are no real mulligans [do-overs] in your job search," she says. "Getting it right the first time—whether it's the right company or job for you—is important. You don't get to redo your first career move out of business school." From the standpoint of a recruiter, the most important thing for National City is the fit of their hires, she says. "Beyond company presentations and interviews, events such as the tournament are opportunities for recruiters to better understand individuals, their personalities, experiences, and career goals. It is also an opportunity to show that National City is committed to recruiting at Vanderbilt."



David Windley, MBA, '97, managing director, Health Care Equity Research, Jefferies and Company, Nashville. "Picking stocks is a game of getting more right than wrong. You are never going to get 100 percent right—long or short. In money management as in golf, you want to make more birdies than bogeys." One of the hardest things for him to do when he was in school was to muster the courage to pick up the phone and call busy alumni to ask them questions about their jobs. "Having an event like a golf tournament, where you put students in contact with alumni in a casual setting, helps to break the ice."



Richard McRae, MBA '05, director, Market Planning, Dollar General, Nashville. McRae does strategic planning for all 8,000 plus Dollar General Stores, and his team is responsible for site selection analysis of each of the two plus new stores opened each day across the country. To be successful in such a career, "you have to be thinking several shots ahead. Strategic planning is not about where you are today but how you can maximize where you are tomorrow. I try to make sure that my team understands the global importance of their role within the organization and future of Dollar General." Events like the golf tournament are "incredibly important," McRae says. "Networking is probably the most important 'class' you take at Owen. If you leave Owen without taking advantage of opportunities to build relationships, then you have missed out on one of the great things about business school."



Trey Christianson, MBA '01, VP Corporate Finance, Wachovia Securities, Charlotte. Christianson focuses principally on middle market and emerging growth companies. Asked how investment banking is related to golf, Christianson replied, "In a scramble format, everyone makes a contribution, which is not unlike the team structure within an investment bank. Everyone works together, yielding a better result than individuals could produce by themselves." Christianson has been active in recruiting at Vanderbilt since he graduated in 2001 and often participates in career symposia focused on helping students prepare for the rigorous interview and screening process associated with investment banking. "Educational and networking events provide an opportunity for us to get to know students in a less formal environment and to continue to position ourselves as the employer of choice for high quality candidates across both the undergraduate and graduate programs."

Headlines from Around the World

Breaking News: Young Buyers Wanted, Satisfaction on Tap, Owen Scoops Faculty, Blogging for BBQ



Hayes Bryant, MBA '04, VP Gen Cap America, Nashville. Bryant, a private equity investor, negotiates with sellers and lenders and with management teams to buy businesses, executes deals, and then monitors the investments. "In this industry, other investors win some and lose some, and that is par for the course," he says. Networking is important to students, he says, so that they stay in touch with the business community during their time at Owen and have an opportunity to make new relationships. "Alumni also need to stay in touch with each other and to continue to give back to make Owen an even better school. This becomes more important every year as the world shrinks and becomes more competitive."

RIC THORNTON, MCT

A CROOKED PATH THROUGH B-SCHOOL? A study released by researchers found that B-school students were more likely to cheat, or at least to admit to cheating, than students in other graduate programs. And schools are fighting back, with ethics codes, pledges, and, in some cases a zero-tolerance policy. Some B-schools are already on board. At Vanderbilt University's Owen Graduate School of Management, the Honor Council is committed to educating students about the honor code and ethical values.

—*Businessweekonline*, September 24

SUN, UNISYS FILE SUIT OVER MEMORY CHIPS. Sun Microsystems Inc. and Unisys Corp. have filed a combined lawsuit against Hynix Semiconductor Inc. and six other technology companies as part of an ongoing federal investigation into a worldwide price-fixing scheme. Sun and Unisys say the companies bilked them of millions of dollars by keeping prices artificially high for computer memory chips. **Luke M. Froeb**, associate professor of management, is quoted.

—*Associated Press*, September 5

DODGE ON ROAD TO FIND YOUNG BUYERS. Twenty-one college students from all over the country were chosen to create business and marketing plans to help Dodge strengthen its appeal to so-called millennials, an estimated 100 million people born roughly after 1980 who are likely to become new car buyers in the



next five years. The three-week initiative, paid for by Dodge, is an extension of Vanderbilt University's Accelerator Summer Program, which offers college students the opportunity to solve real-world business problems while working with companies. **Mike Sicard**, assistant clinical professor and director of the Accelerator program, and **Lindsay Matthews**, a junior in the school of engineering, are quoted.

—*Pueblo Chieftain*, August 22

BUSINESS SCHOOL APPLICATIONS SPIKE. Applications rose this year at a majority of business schools, according to a report released Monday by the Graduate Management Admission Council.

Melinda Allen, assistant dean of admissions and career management at Vanderbilt University's Owen Graduate School of Management, is quoted.

—*InsideHigherEd.com*, August 8

BUSINESSMAN BLOGS BOLDLY TOWARD BBQ SUCCESS. When Jim Reams decided to open a restaurant, he understood the power of the Internet. But he hardly realized the Web's power to generate business for his Berry Hill (Nashville) barbecue joint. **Jennifer Escalas**, associate professor is quoted.

—*City Paper*, July 24

TENNESSEE GOVERNOR PUSHES FOR "WAL-MART DEGREES." Tennessee Gov. Phil Bredesen wants the state to do a better job at preparing students for careers at Wal-Mart. But he's not talking about stocking shelves or checking out customers at the retail giant. Instead, Bredesen wants to tailor community college programs to offer courses on retail management. **Timothy Vogus**, assistant professor of management, is quoted.

—*Associated Press*, August 6

HOW TO VALUE STOCK OPTIONS? BEAR STEARNS WEIGHS IN. Another contestant, Wall Street's Bear Stearns Co., has joined the race to build a better mouse trap for valuing employee stock options. **Robert Whaley**, Valere Blair Potter Professor of Management with the Owen Graduate School of Management, is quoted.

—*Wall Street Journal*, July 26

VANDERBILT SCOOPS FACULTY. The Owen Graduate School of Management has appointed seven new faculty members for the forthcoming academic year, many from other top U.S. institutions, such as Harvard and Duke.

—*Financial Times*, July 3

MONEY ON TAP. Article about Owen alum **Linus Hall**, EMBA '00, who got tired of the corporate world, and after interning at a brewery, started a local Nashville brewery, which is doing quite well.

—*Forbes*, June 5