GUPPY LOVE  Michael Mauboussin shows how mate selection by guppies sheds light on money managers’ investment choices  •  Strengthening ties with Asia  •  Gita Johar explains why recommendations from friends often go awry  •  School connections that changed the lives of 10 alumni  •  The dean champions the role of the MBA
ONLINE:

Columbia Ideas at Work  This online knowledge bank offers a bridge between the School’s intellectual capital and your business challenges.  
www.gsb.columbia.edu/ideas

90th Anniversary Commemorative Web Site 
In marking the anniversary of its founding in 1916, the School celebrates nine decades of achievements and looks forward to those ahead.  
www.gsb.columbia.edu (click on the logo)

Chazen Web Journal of International Business 
Produced by MBA students, the Chazen Web Journal of International Business features faculty and student research, interviews with global business leaders, conferences, study trips and more.  
www.gsb.columbia.edu/chazen/journal

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Dear Alumni:

When all of us talk about Columbia Business School, we often talk about the value of our community. With more than 36,000 alumni, our vast and talented network is our greatest asset, one that continues to shape the lives of our students long after graduation.

In this issue of HERMES, we look at the impact this network has had on our alumni throughout the generations. You can read the stories of 10 enterprising graduates whose personal and professional lives were changed by the connections they made at the School. By reaching out to their peers and professors, these graduates found the advice and contacts they needed to switch careers, launch businesses and give back to their communities.

This issue also highlights surprising new work from our faculty. Professor Gita Johar's research takes an unexpected view on how well our friends really know us. An excerpt from a recent book by Michael Mauboussin, an adjunct professor of finance and economics, draws a parallel between the mating habits of guppies and the investment choices of money managers.

Recently I made my second trip to Asia on behalf of the School, and I was struck by the power of our network in such seemingly distant places as Seoul, Taipei, Shanghai, Hong Kong and Tokyo. China, in particular, has provided many opportunities for our students and professors. To strengthen our connections to the world’s fastest-growing major economy, the School is establishing a new partnership with the University of Hong Kong. Starting with the 2007 academic year, MBA students from the University of Hong Kong will have the opportunity to spend a semester at the School, giving our students exposure to this increasingly important nation.

Our alumni’s collective energy, diversity and independence of spirit make the Columbia network unique. Perhaps even more important is our graduates’ generosity—their willingness to share contacts, exchange advice and help one another grow. I hope you will add your own willingness to the effort through the Alumni Web Site (www.gsb.columbia.edu/alumni) and by participating in alumni events throughout the world.

With regards,

Glenn Hubbard
Dean and Russell L. Carson Professor of Finance and Economics
Alumni Relations Office Expands Reach Under New Leadership

In April, club representatives from 19 cities—including Rio de Janeiro, San Francisco, London, Singapore and Madrid—came to the School for the third annual Alumni Club Leadership Summit. The club representatives discussed ways to build connections, strengthen the community and add to the lifelong value of an MBA. The meeting was one of many recent efforts by the Alumni Relations Office to expand its reach and increase its offerings of career-focused events and programs. The office has a new team in place, headed by Janet B. Rossbach, director of alumni relations, and has increased its staff, adding assistant directors who are supporting the 45 alumni clubs and building outreach efforts for EMBA graduates. More than just staying in touch with friends, this new effort will nurture the full strength of the 36,000-person-strong alumni network.

Recent events have included:

- Workshops on negotiating job offers and career transition strategies
- The second annual restructuring event, moderated by Professor Laura Resnikoff at the Metropolitan Club in New York, on “Who Should Benefit from Pension Plan Terminations, the Public or Private Sector?”
- Career Night 2005, where more than 800 alumni and students discussed industry trends and participated in a speed-networking session and a networking reception
- Visits by Dean Glenn Hubbard to the London club’s annual gala, the Boston club’s holiday party and the Sunnyvale, Calif., headquarters of Yahoo!

For upcoming alumni events, visit www.gsb.columbia.edu/alumni.


Women today have infinite choices,” said Geraldine Laybourne, chairman and CEO of Oxygen Media, in her keynote address at the 13th annual CWIB conference on February 24. “They can live life on their own terms.”

This year’s conference, “Impact of the Individual, Power of the Network,” included panels on working abroad, women entrepreneurs, the future of hedge funds and corporate America’s role in raising girls who study math and science.

Diana Taylor ’80, superintendent of banks for the New York State Banking Department, received the 10th annual Distinguished Alumna Award. “I remember when I was a student here wondering if anyone would hire me,” said Taylor, who has also served as New York’s deputy secretary for finance and housing, CFO for the Long Island Power Authority and a founding partner of M. R. Beal & Company, an investment banking firm.

“It’s an absolutely amazing feeling to be in the presence of so many accomplished and inspiring businesswomen,” said Jenny Oh ’06, who helped organize the event. “At the end of the day, you feel like you can conquer the world!”

For more information about CWIB, visit www.cwib.org.
**NEWSMAKERS**

**Quotable:** “We insist that cultural education is thoroughly consistent with a business career—in fact, an indispensable prerequisite—and that Mount Parnassus is no longer so distant from Wall Street.”

Director James Egbert on the marriage of classical and commercial education at the 1924 opening of the then School of Business’s new building.

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**NEWS MEDIA**

**Follies Video a Cult Hit with Financial Media**

Students from this year’s Follies earned national attention for a music video starring Michael O’Rorke ’06 as Dean Hubbard. The cast and producers appeared on CNBC’s Power Lunch, and the video was mentioned by the Washington Post, the New York Times and CNN.

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In the “Mastering Uncertainty” series on emerging markets, Professor Fisman and a coauthor discuss how companies can harness uncertainty as “a powerful source of opportunity.”

**Geoffrey Heal, Associated Press, April 20: “British Treasury Chief Seeks Consensus on Climate Change”**

Professor Heal comments on the challenge of funding environmental programs in an article on British Treasury chief Gordon Brown’s call for global action to prevent climate change.


Professor Iyengar and her research on choice are featured in a piece on the process of exploring as many options as possible before making a decision. The story was also NPR’s “Story of the Day” podcast.

**Murray Low, SmartMoney.com, February 14: “Tips for Budding Entrepreneurs”**

Professor Low discusses the advantages of business school for future entrepreneurs.

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**Stephanie Elden, Wall Street Journal, February 27: “Aging Baby Boomers May Be a Boon for Bond Market”**

Professor Zeldes’s research shows the stabilizing effect the aging population has on the economy.

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**Ninety years ago, the School welcomed its first class in 1916. Eight of the 61 students were women.**
Awesome or rock star is in nearly every sentence I say,” said Janet Hanson ’77, describing the more than 90 women whose life stories she features in her new book, More Than 85 Broads. “I am a passionate supporter of women—I get so excited when women do really well!”

On April 11, Hanson joined four fellow alumnae for a panel discussion and book-signing event hosted by Columbia Women in Business and the Alumni Relations Office.

Hanson invited students to join 85 Broads, a global community of women she founded in 1999 that now connects more than 13,000 members worldwide. (The name is a play on Goldman Sachs’s headquarters at 85 Broad Street in New York.) Students interested in business and women MBAs around the world meet online and in person through Hanson’s network to share advice about business school, jobs and philanthropic opportunities.

Panelists Nana Adae ’00, Deborah Buresh Jackson ’80, Cheryl Katz ’98 and Andrea Miller ’02—4 of the 16 alumnae who appear in Hanson’s book (McGraw-Hill, 2006)—spoke candidly about ambition, family and balance. “Don’t feel guilty, and be able to forgive yourself,” advised Katz, a senior complex claims director at AIG and mother of triplets. “Balance isn’t always just about finding time for children, it’s important to reserve time for yourself,” said Adae, an associate at Lehman Brothers who took time off this spring to participate in a creative writing workshop. “I’ve always loved writing, so for me, balance means making sure that I have time to do that.”

Colleen Yachimski ’06, who worked at Hanson’s company, Milestone Capital Management, for five years, introduced her at the event. “I’ve never met a woman like Janet in business,” she said. “She is so refreshingly honest—she really helped me find my way.”
Entrepreneurs Win Prizes for Business Plans

Students with entrepreneurial ambitions had a wealth of opportunities in recent months to pitch their business plans, amass contacts and acquire seed money for their ventures.

A company cofounded by Jordan Tongalson ’06 won the $25,000 first prize in this year’s Global Social Venture Competition. Tongalson’s Mobile Medics plans to provide affordable health care for villagers in rural India.

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G SVC winners Jordan Tongalson ’06 (right) and Anupendra Sharma

Michael Katz ’06 and Niv Rotem ’06 took top honors in the School’s Sheldon Seevak Real Estate Business Plan Competition with their proposal for an entertainment and retail complex on Staten Island.

For those with an absurdist bent, there was the A. Lorne Weil Outrageous Business Plan Competition. Although unconventional proposals are the competition’s raison d’être—last year, a contestant pitched a train from the United States to Europe—some have achieved real-world success. This year’s $5,000 grand prize went to Sharad Ghosh ’06 for his plan to sell customized tickets to sports events at deep discounts.

Seven students received investments from the Eugene Lang Entrepreneurial Initiative Fund: David Berk ’06 for MobyGames, a Web site that seeks to catalog every video game ever made; Arnold Leitner ’06 for Skyfuel, a thermal solar power plant developer; Elena Bajic ’06 for IvyExec, which helps professional women find flexible job opportunities; Ian Sigalow ’06 for Strong Data Corp., which created a credit-card technology to reduce fraud; and Wayne Thorsen ’06, Diego Sanchez ’06 and James Baird III ’06 for ExpertBee, an auction site for information.

REITs Seminar Draws SRO Crowd in Hong Kong

Professor Chris Mayer was eating at a dim sum restaurant in Hong Kong when he glanced at a neighboring customer’s newspaper. Amid the Chinese characters, he could make out the acronym “REIT” in the headline. In the small, landlocked city of Hong Kong, everything is about real estate—even more so than in New York, Mayer explains. Amid the Chinese characters, he could make out the acronym “REIT” in the headline. In the small, landlocked city of Hong Kong, everything is about real estate—even more so than in New York, Mayer explains.

Mayer was in Hong Kong to give a presentation on U.S. REITs in tandem with Dean Hubbard’s trip to Asia. Although REITs have made the American real estate market more efficient, it’s still far from perfect, Mayer told the overflow crowd of real estate professionals and alumni. “There are benefits of securitization, including better information flow and more liquidity,” he says, “but there’s also the potential for fads and bubbles.”

He recommends holding REITs in a long-term portfolio but adds that some REITs have become very expensive in recent years, particularly in the United States. In Hong Kong, Mayer says, where REITs are literally front-page news, investors should expect to earn a good return in a growing market.

Reunions 2006: Nearly 1,000 alumni gathered on campus this spring to reconnect and return to the classroom. To view more reunion photos, visit www.gsb.columbia.edu/alumni.
School Community Helps Establish Business Library in Afghanistan

Students and faculty members donated more than 300 books and nearly 1,000 periodicals to a newly established business library at Da Afghanistan Bank, Afghanistan’s equivalent of the Federal Reserve.

Adam L. Michaels ’06 learned about the start-up library through his participation in the Columbia University Senate, where he met Francis Schoonmaker, a professor of education. Schoonmaker, who had been in contact with the IMF consultant to the bank during a Teachers College outreach initiative in Kabul, spoke with Michaels about the need to fill the library’s bookshelves.

“Adam took on the project and has made an enormous contribution to rebuilding capacity within Afghanistan,” said Schoonmaker. “I can’t tell you how excited I’ve been to see him work through some difficult obstacles to make this library a reality.”

Michaels was particularly pleased to send multiple copies of books donated and authored by professors at the School, including The Economics of Money, Banking and Financial Markets by Frederic Mishkin, the Alfred Lerner Professor of Banking and Financial Institutions, and Financial Statement Analysis and Security Valuation by Stephen Penman, the George O. May Professor of Accounting and codirector of the School’s Center for Excellence in Accounting and Security Analysis.

“It’s great to be able to help in such a practical way,” said Michaels. “And now we can say that thought leaders at Columbia Business School are affecting monetary policies in Afghanistan.”

The West End Passes into Alumni Hands

The West End, the storied pub and restaurant where Jack Kerouac, Allen Ginsberg and generations of Columbia students had a few too many beers, will be reincarnated under Jeremy Merrin ’00, owner of the Havana Central restaurants in Midtown and Union Square.

Decades have passed since the Beat Generation gave a literary air to the local beer-and-burger hangout, just a few blocks south of the School on Broadway. The original bar is long gone, and only the floor was still in place when the previous owner purchased the restaurant in 1990. That didn’t stop Columbia students from packing the bar night after night, so much so that past deans have reportedly sent spies there to check on their students.

Merrin’s restaurants specialize in home-cooked Cuban dishes like ropa vieja and roast pork, many of which are based on recipes from his Cuban friends, and the renovated West End will feature mojitos alongside its more traditional drinks. But having spent many hours in the West End himself during his School years, Merrin has said that he plans to keep the restaurant’s well-loved burgers and beers on the menu.

At the 30th Annual Dinner on May 1, the School honored Sidney Taurel ’71, chairman and CEO of Eli Lilly and Company (at right, with the dean and dinner chair Jerry Chazen ’50), and Robert B. Zoellick, then deputy secretary of state.
The Bay Area Club relaunched with a June 14 event in San Francisco.

The San Diego Club launched on June 15 with an event at the Callaway Golf Company.

The Houston Club holds monthly networking lunches with local peer school clubs.

The Chile Club met in July to discuss future events in the area.

The Chicago Club will host a Private Equity Panel on September 5.

The Boston Club’s Annual Leadership Dinner was held on April 5.

The New York Club has 1,650 members and hosts more than 50 events a year.

The London Club—the School’s second-largest club—will host its Annual Gala Dinner on September 25.

An Arab Alumni Association was recently founded to bring together alumni from across the Arab world.

The newly established Shanghai Club held a golf outing on July 15.

The Pan-European Reunion will take place in Rome on October 20–22.

The inaugural Pan-Asian Reunion will take place in Hong Kong in 2008.
The Israel Club’s annual speaker event in September featured Yona Fogel, deputy CEO of Bank Leumi.

The German-Speaking Club will host Board of Overseers member Wolfgang Bernhard ’88 as a guest speaker on November 9.

The newly established Shanghai Club held a golf outing on July 15.

An Arab Alumni Association was recently founded to bring together alumni from across the Arab world.

The Pan-European Reunion will take place in Rome on October 20–22.

The inaugural Pan-Asian Reunion will take place in Hong Kong in 2008.

The Philippines Club recently cohosted an event for prospective students.

For information on all 45 clubs, visit the Alumni Web Site at www.gsb.columbia.edu/alumni.
How well do your friends know you?

Not as well as you might think, professor Gita Johar finds—and that has important marketing implications

by Jennifer Itzenso
Have you ever taken a friend’s recommendation for a book, CD or restaurant, only to regret it? That’s because we vastly overestimate how well our friends know us, according to new research by Professor Gita Johar of the Marketing Division.

Johar, working with Andrew Gershoff of the University of Michigan, conducted studies in which participants were asked about their favorite types of movies. They were also asked if their friends would be able to name these types. When their friends were put to the test, their responses were often wildly off base, Johar found. In fact, when it comes to knowledge of our tastes and preferences, close friends are no better than mere acquaintances.

However, most of us tend to give our friends the benefit of the doubt, particularly in close relationships. The reason? The belief that our friends know us well protects our trust in the friendship and helps maintain our sense of our own identity. “We want to believe that we are important to others, particularly to others we care about,” the researchers say.

These findings are important to companies that are trying to understand how customers rely on “recommendation agents,” or people who make decisions on their behalf. It is an area of research that is receiving more attention in the world of online commerce, since many Web sites use recommendations as a way to encourage purchases. Typically, sites base their suggestions on searches by other customers, product reviews by users of the site or a customer’s purchasing history. Most sites use relatively simple algorithms—for example, if a customer bought Johnny Cash’s album *At Folsom Prison*, the site may suggest the soundtrack to the film *Walk the Line*. “There are a lot of recommendations that companies and Web sites give you,” says Johar. “The question is really to what extent do people trust recommendations given by others.”

The answer, she has found, is that people want specific, personalized suggestions from friends whom they believe, correctly or not, know them well. Therefore, she suggests companies create networks that allow friends to exchange recommendations. “I would assume a person within my network knows me really well, and would act on that recommendation more than I’d act on a recommendation from a stranger,” Johar says.

Some companies have taken initial steps in that direction. Amazon.com’s Profile option allows customers to make their recent purchases, wish lists and favorites viewable to their friends. Others are considering ways to build word-of-mouth through social networking Web sites like MySpace, Friendster or Facebook. In the off-line world, understanding this aspect of consumer behavior could benefit almost any business in which relationships are formed between customers and service providers.

Taking into account how little people know about their friends’ likes and dislikes, some consumers may wonder if they should seek recommendations elsewhere. “From a normative standpoint, you’d be better off not trusting your friends as much, because they don’t know you as well as you think,” Johar says. But the nature of friendship motivates us to like our friends’ suggestions, even when they prove wrong, and this, Johar concludes, keeps us coming back for more.
EXPANDING
When Professor Chris Mayer took the stage in Hong Kong to give his presentation on REITs, he was greeted by an overflow crowd. Never mind that Hong Kong has only three real estate investment trusts, all of which have been public companies for just a few months. The hunger for information is so great in China that a panel discussion on REITs attracts a throng of paparazzi and attention more frequently associated with rock stars.

Mayer’s seminar (see NewsMakers, page 6) is just one of the ways Columbia Business School is exploring the enormous opportunities in China. Last year, the School launched a partnership with Fudan University to train Chinese executives. The Jerome A. Chazen Institute of International Business is nearing the end of a two-year research project on China’s foreign exchange and financial markets. And in March, there were three overlapping trips by student groups: a Chazen study tour to Beijing and Shanghai, an EMBA emerging markets trip and a 28-student real estate tour.

For two decades, China has grown at a pace that no other country in modern history has sustained. It has a 1.3-billion-person market and an overwhelming need for the kind of training that a Columbia MBA provides. And in a country where professionals tend to establish almost family-like relationships with their business associates, Columbia’s 36,000-strong alumni network has particular resonance.

Earlier this spring, Dean Glenn Hubbard traveled to China as part of an eight-day journey through Asia. “China is an enormous opportunity for the whole world economy,” he says. “I want to make sure that the best Chinese students come to Columbia Business School. And I want all of our students and faculty to have exposure to China.” To that end, he announced a new partnership with the University of Hong Kong. Starting with the 2007 academic year, University of Hong Kong MBA students will have the opportunity to spend a full semester at the School, allowing for a cross-cultural exchange of insights, the dean says. “The students will be able to bring back innovative ideas that will help shape the way business is practiced in China.”

In the future, Hubbard says, Hong Kong may become a key hub for an EMBA program that could enroll students throughout China. The School is also exploring executive education programs in China, South Korea and Japan. “When you look at Asia and how fast things are changing in this part of the world, you need MBAs who are enterprising, broad in perspective and capable of thinking on their feet and making decisions.”

This was the dean’s second outreach trip to Asia. He spoke at the Seoul Financial Forum, met with the newly formed Shanghai alumni club and discussed entrepreneurship with senior Hong Kong government staff. At a lunch in Seoul sponsored by Ro Fallon, CEO of Korea Exchange Bank, he reflected on how the School has changed since it was founded 90 years ago to prepare students for careers in “accounting, banking and foreign trade.” Now, the curriculum is designed to provide comprehensive skills and analytical training for a lifetime career.

During his journey through Seoul, Taipei, Shanghai, Hong Kong and Tokyo, the dean was struck by the strong connections alumni maintain with the School, even in seemingly far-flung locations. He heard from many graduates who said their education had prepared them for the business world in ways they hadn’t expected. “Students often look at the value of an MBA as their salary for their first job,” Hubbard says. “But it is maybe five years, nine years later, that they realize what they gained from their classroom experience helped them succeed.”

**THE ROLE OF IMITATION IN MARKETS**

**GUPPY SEE, GUPPY DO** At first blush, biologist Lee Dugatkin appears to be a guy with way too much time on his hands. The focus of his research is the apparently esoteric question of how female guppies select mates. As it turns out, female guppies have a genetic preference for bright-orange males. But when Dugatkin arranged for some females to observe other females choosing dull-colored males, the observing females also selected the dull males. Surprisingly, in many instances female observers overruled their instincts and chose instead to imitate other females.

Why should anyone care about how female guppies pick their partners? The answer gets to the core of a lively debate about whether animal behavior is shaped solely by genetic factors or if culture plays a part. Dugatkin’s work demonstrates that imitation—a form of cultural transmission—is clearly evident in the animal kingdom and plays a central role in species development.

Certainly, too, imitation is a vital force with humans. Fashions, fads and traditions are all the result of imitation. And since investing is inherently a social activity, there is every reason to believe that imitation plays a prime part in markets as well.

Most investors and businesspeople have fundamental philosophies that are supposed to define their behavior—
new industry may encourage others to invest, sparking the industry's growth. Positive feedback can also get a system out of a bad situation. In nature, a "follow-your-neighbor" strategy may allow a flock of birds to elude a predator. Analogously, it can help investors flee a bad investment.

**FOLLOW THE ANT IN FRONT OF YOU** Imitation is one of the prime mechanisms for positive feedback. Momentum investing, for example, assumes that a stock that is rising will continue to rise. If enough investors follow a momentum strategy, the prophecy of a high price becomes self-fulfilling.

Most investors view pure imitation with some misgiving, belying their often-imitative actions. But imitation often has a rational basis. Consider the following cases, for example:

**Asymmetric information.** Imitation can be very valuable when other investors know more about a particular investment than you do. We all routinely use imitation in our day-to-day decision making, allowing us to leverage the specialized knowledge of others.

**Agency costs.** Many money management firms must make tradeoffs between maximizing the performance of the investment portfolio (long-term absolute returns) and maximizing the value of the business (by collecting assets and fees). Companies that choose to maximize the value of the business have an incentive to do what everybody else is
doing. This imitation minimizes tracking error versus a benchmark.

**Preference for conformity.**
As Keynes said, “Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally.” Humans like being part of a crowd, as the group often bestows safety and reassurance.

So positive feedback is desirable under some circumstances, and investor imitation can make sense. But positive feedback can also lead to excesses.

Financial economists describe herding as when a large group of investors make the same choice based on the observations of others, independent of their own knowledge. In effect, herding occurs when positive feedback gets the upper hand. Given that markets need a balance between positive and negative feedback, such an imbalance leads to market inefficiency. This is in contrast to the classical view that investors trade solely on the basis of fundamental information.

Determining exactly how much positive feedback is too much may be an impossible task. Extensive scientific studies of innovation and idea diffusion reveal that there is typically a critical threshold, a tipping point, beyond which positive feedback takes over and the trend dominates the system. The relative frequency of bubbles and crashes strongly suggests that there are consistent discrepancies between price and value.

The market is not the only decentralized system that exhibits suboptimal imitation. For example, there is the fascinating case of army ants. A group of worker ants, which are essentially blind, sometimes separates from the colony. Since no individual ant has any idea how to relocate the rest of the colony, all of the ants rely on a simple decision rule: follow the ant in front of you. If enough individuals follow the strategy (i.e., they reach the tipping point), they develop a circular mill, where ants follow one another around in circles until death (see graphic). One such mill persisted for two days and had a 1,200-foot circumference and a two-and-a-half-hour circuit time.

Of course, for the ants imitation is hardwired genetic behavior, not cultural. Investors, in contrast, have the ability to think independently.

However, Charles MacKay’s famous words from more than 150 years ago remind us that avoiding the imitation trap is an age-old problem: “Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they recover their senses slowly, and one by one.”

**HERDING FROM THE GRAPEVINE** George Soros is the most prominent investor to explicitly cite the role of positive feedback in his investment philosophy. Soros’s theory of reflexivity argues that there is positive feedback between a company’s stock price and its fundamentals and that this feedback can lead to booms and crashes. Soros’s strategy was to take advantage of these trends by either buying or shorting stocks.

The finance literature also reveals a number of examples of herding among investors:

**Mutual funds.** Russ Wermers found evidence of herding among mutual funds, especially in small-cap stocks and growth-oriented funds. He found that the stocks the herd buys outperformed the stocks the herd sells by 4 percent during the subsequent six months.

**Analysts.** Ivo Welch shows that a buy or sell recommendation of a sell-side analyst has a significantly positive influence on the recommendations of the next two analysts. Analysts often look to the left and to the right before they make their recommendations.

**Fat tails.** Econophysicists, using simple herding models, have replicated the fat-tail price distributions that we empirically observe in markets. These models provide a much more convincing picture of market reality than those that assume investor rationality.

In markets, a symbiotic relationship between positive and negative feedback generally prevails. If all speculators destabilized prices, they would buy high and sell low, on average. The market would quickly eliminate such speculators. Further, arbitrage—speculation that stabilizes prices—unquestionably plays a prime role in markets. But the evidence shows that positive feedback can dominate prices, if only for a short time. Imitation can cause investors to deviate from their stated fundamental investment approach and likely provides important clues into our understanding of risk. Next time you buy or sell a stock, think of the guppies.

Michael Mauboussin is chief investment strategist at Legg Mason Capital Management and adjunct professor of finance and economics at Columbia Business School.
THE IDEA: As participants in incentive systems perceive that they are getting closer to their goal, they intensify their efforts.

THE RESEARCH

The goal-gradient hypothesis describes a 1934 finding in behaviorism: rats running toward a reward (cheese) move progressively faster as they approach their goal. Laboratory tests conducted over the years provided support for the original finding in animals, but until recently there was little empirical evidence of a goal-gradient effect in humans. Ran Kivetz, Oleg Urminsky and Yuhuang Zheng tested the goal-gradient hypothesis in the context of consumer reward programs. They looked at the behavior of coffee drinkers participating in a café’s “buy 10 coffees, get 1 free” program and Internet users who rated songs in return for reward certificates. The results showed that the café customers purchased coffee more frequently as they got closer to earning a free coffee. Likewise, the Internet users visited the rating Web site more often, rated more songs per visit and were less likely to terminate a rating session as they approached the incentive threshold.

In both programs, participants reduced their level of engagement after achieving their first reward and then accelerated their efforts again as they approached their second reward. Individuals who more strongly accelerated toward their first reward were more likely to quickly reengage in the program. Moreover, the researchers found that illusionary goal progress also induces a higher level of engagement: customers who received a 12-stamp coffee card with 2 preexisting “bonus” stamps completed the 10 purchases more quickly than those who got a regular 10-stamp card (median completion times were 10 versus 15 days).

PRACTICAL APPLICATIONS

Marketing managers, sales directors and human resources managers

This research has implications not only for consumer reward programs but also for sales force incentives, employee motivational plans and other types of goal-based systems. You can use this research to design incentive systems that more effectively segment your constituents and motivate them to achieve goals and engage in desired behaviors.

Read More


Ran Kivetz is professor of marketing at Columbia Business School.

> View more Research Briefs, articles and faculty research at www.gsb.columbia.edu/ideas
When Deborah Buresh Jackson ’80 enrolled in the School, she wanted to learn how to bring business practices to the government sector. She soon got to know Professor Ray Horton, director of the Public and Nonprofit Management Program, the precursor to today’s Social Enterprise Program. “He was a wealth of information and had an open-door policy,” Jackson says. “He always took an interest in students who wanted to work in government.”

While she was still a student, Jackson helped research a chapter of a book Horton was coediting, Setting Municipal Priorities. Their professional relationship continued long after her graduation. Jackson went on to work in municipal finance at Goldman Sachs, where she became involved with the Citizens Budget Commission, which monitors the fiscal affairs of New York City and New York State. Horton, who was appointed the Frank R. Lautenberg Professor of Ethics and Corporate Governance in 2004, was president of the organization, and Jackson helped him recruit new members from the private sector. “It was a delight for me to have the chance to contribute something at that level,” she says.

Jackson worked as an investment banker for 21 years before founding her own boutique firm. She also serves on the boards of five nonprofits. She has regularly sought Horton’s advice throughout her career, and last fall she was able to share some advice in turn when Horton asked her to speak to his class on board and executive management of nonprofits. It was a rewarding experience for Jackson, who notes that there are now many students who are interested in the field.
Jackson’s story is one of many that show the strength of the School’s network, 90 years and 36,000 alumni strong. Professors become mentors and stay in touch with alumni over the decades, helping them find jobs, break into new careers and start their own ventures. Through the Alumni Web Site (BANC) and e-mail groups, alumni make new contacts, exchange advice and act as sounding boards. With so many talented people coming together to share a transformative experience, it is perhaps only natural that the connections made at the School are powerful.

Recently, Colin Johnson ’00 discovered the alumni e-mail lists. He posted a query for assistance with an important business decision and quickly received several responses. “I wouldn’t have connected with these individuals had it not been for these lists,” he says. “They broadened my reach substantially.”

Johnson, who served as GBA president and is now copresident of the Bay Area Alumni Club, calls his former classmates his “kitchen cabinet” and regularly seeks out their advice. He has also maintained close ties with his professors. Ralph Biggadike, professor of professional practice in the Management Division, has helped him solve business problems over the years, and Eric Johnson, the Norman Eig Professor of Business in the Marketing Division, serves on the advisory board of his company, Eyetools, which provides software to advertising and marketing firms.

“The network has provided me with a tremendous amount of richness in my life, both professionally and personally,” Johnson says. In the last few years, he has interviewed many prospective students, which has extended his network even further. He has kept in touch with several of these students throughout their time at the School and even after their graduation. “There’s an enormous amount of potential that’s yet to be unleashed. That’s why I’m still so involved.”

Adam Crocker ’05 made his first connection at the School a few months before he started the program. Through an open house sponsored by the Hermes Society, he met Philip Ruvinsky ’02, who worked at UBS. They discussed Crocker’s interest in investment management, particularly in value investing. Two years later, Crocker saw Ruvinsky at the annual Graham and Dodd Breakfast seminar in New York. Ruvinsky said his firm was looking for an intern, and soon Crocker had a part-time position that he held until graduation.

Crocker now works in investment management at Morgan Stanley. Every few months, he meets up with his former professor and two of his classmates to discuss value-investing ideas. He keeps in touch with alumni through events like the Columbia Investment Management Association conference, the Black Business Students Association auction and value investing reunions. “Without having moved very far geographically, I have a much broader set of peers,” says Crocker, who grew up in South Orange, N.J. “Some of my best friends are from the program.”

Paul Sonkin ’95 was looking for a change when he enrolled in the School. He had experience in compliance at Goldman Sachs and had previously worked at the Securities and Exchange Commission, but he wanted to get into the investment side of the business. “My career was going in one direction, and my interests were going in another,” he says. “The School corrected that.”
Sonkin has worked as a money manager at Hummingbird Value Funds for the last seven years. Through his firm’s internship program, informally known as the Hummingbird Halfway House, he has helped many Columbia students get experience in the field. “It gives them a place between school and their first job to get a name on their résumé and a reference,” he says. His own education has come full circle: he now teaches applied value investing at the School.

When Jaycee Pribulsky ’01 came to the School to study nonprofit management, it was still difficult for a student to make contacts in the field. Now that she’s worked for several years in community affairs and corporate philanthropy, she enjoys sharing what she’s learned with current students. She keeps in touch with Professor Horton and Carolyn Champ, director and associate director, respectively, of the Social Enterprise Program. “When the SEP has an event or has students interested in corporate philanthropy, I’m always happy to chat with them,” Pribulsky says. She has worked with several SEP students on a project basis. “I enjoy helping people who are interested in this field.”

Mori Goto ’84 calls Larry Selden, professor emeritus of business, his “teacher for life.” Goto, who came to the School from Japan, knew little about the debt market when he enrolled in Selden’s class. In the middle of the term, unsure of how he was faring in the class, Goto sought Selden’s advice. Goto was surprised to hear that he wasn’t just doing well but that he had a special appreciation of the topic. Selden urged him to pursue a career as a debt trader after his graduation.

Goto is now a managing director at RBS Greenwich Capital. He has been in the business for 22 years and still keeps in touch with Selden, who has been a lifelong source of advice. “Professor Selden didn’t only teach me what he knew about the subject,” Goto says. “He taught me what I was good at.”

Shortly after graduation, Kimbrough Towles ’97 organized a conference for all the investment professionals at U.S. Trust, where she is now a managing director. She wanted to share what she had learned from Professor Greenwald’s class on the economics of strategic behavior with her colleagues. The theme was competitive advantage, and Greenwald was the keynote speaker. “Bruce and what I learned at Columbia were the inspiration,” says Towles. The class influenced the way she evaluates companies, particularly from a strategic basis. A few years ago, at Greenwald’s suggestion, Towles started teaching a course on applied value investing with Thomas Vail ’00, also a portfolio manager at U.S. Trust. With her professional experience, Towles was able to offer her students an overview of the industry and suggestions on where they might want to work after graduation. “It has been an intellectually challenging and fulfilling experience,” she says.

Since he moved back to London, Carlo Pirzio-Birolli ’95, a managing director at Deutsche Bank, has kept in close contact with alumni and the School. “The farther you are from Columbia Business School, the more you look forward to participating in it,” he says. He became involved with the local London alumni club and is frequently sought out by current students who are interested in working in private equity. “They find my name as they get into the interviewing process, and I help them as much as I can,” he says. “I remember doing the same thing when I was a student. The club is a way to give something back.”

Bill Driscoll ’01 made perhaps the ultimate personal connection at the School. He met his future wife, Anne Bruce Driscoll ’01, in their first term. Her father, Robert Bruce ’70, is also an alumnus, and at their 2003 wedding, there were more than 25 graduates from classes throughout the decades.

The network is a way for alumni to “collectively make sure we repeat what has worked and help each other avoid the pitfalls that may have knocked one of us for a loop,” says Driscoll, who cochaired the Young Alumni Society and founded leveraged-buyout firm IDL Tools International. He adds that “spontaneous mentoring” by alumni and professors has been an invaluable help in his career. “The real benefit of this network is being able to ask people quick questions. The willingness of people to respond to messages is amazing.”
Taking Part

From serving as a guest speaker in class to recruiting students around the world, thousands of alumni support and enhance our community every day.

> **Network** Hundreds of alumni attended the School’s inaugural Career Night in Times Square on November 14, 2005, networking and sharing career advice with students and alumni alike.

> **Share your knowledge** More than 50 alumni participated in the School’s first “A Day in the Life of an Investment Banker” in September, which featured a faculty panel and a Q&A with alumni representing 20 major firms and boutique investment banks.

> **Attend the Annual Dinner** Nearly 1,000 alumni and friends of the School attended the 30th Annual Dinner at the Waldorf-Astoria on May 1, the day Mayor Michael Bloomberg of New York proclaimed “Columbia Business School Day,” raising more than $2.3 million.

> **Get involved with a Columbia Business School Alumni Club** This year, clubs were launched in Benelux, Denver, Lebanon, San Diego and Shanghai, bringing the total number of clubs worldwide to 45.

> **Attend reunion weekend** Nearly 1,000 alumni visited campus over the weekend of April 7–9, including a handful of members of the class of ’56, who celebrated their 50-year reunion.

> **Recruit at the School** More than 75 alumni participated in on-campus recruiting presentations this year, and many others served as representatives at career sessions.

> **Attend a student conference** Each year, Columbia Women in Business, the Marketing Association of Columbia and the Black Business Students Association, among many other student clubs, organize popular conferences that feature hundreds of alumni speakers.
Business, Knowledge and Global Growth
by Glenn Hubbard

In this excerpt from his University Lecture in May, Dean Glenn Hubbard explains how business schools have contributed to economic growth and entrepreneurial success. University Lectures, hosted by President Lee C. Bollinger, highlight the University’s leading faculty members. Previous lecturers have included Lionel Trilling, Jacques Barzun and Jagdish Bhagwati.

The abilities to think strategically and value opportunity are teachable, and business schools’ connections between research and industry offer the right classroom. Is it just a coincidence that the resurgence of entrepreneurial capitalism in the United States is occurring at a time when leading graduate schools of business are integrating social science research more effectively with business? One thoughtful commentator, Sebastian Mallaby of the Washington Post, recently emphasized this point when describing the vibrancy of American business. Mallaby notes that in 2004 and 2005, American firms accounted for no fewer than 12 of the top 15 slots on the annual Financial Times list of the world’s most respected companies. He goes on to assert: “America’s business culture is perfectly matched to globalization. American business suites and MBA courses are full of talented immigrants, so American managers think nothing of working in multicultural firms.”

Much of this progress can be traced back to the contributions of the American business school. For example, advances in finance have been particularly important for economic growth and stability. And the revolution in new financial instruments has been driven in large part by research at business schools.

We can also look at the impact of the MBA on venture capital—a sector that provides the intellectual and financial seed corn for our most innovative industries and technologies. Eighteen of the top 25 venture capitalists on the Forbes Midas list have MBAs, and most are now on the boards of the most storied technology companies of our times. Could these stars have been as effective without the disciplined business principles of an MBA education?

Beyond finance, many prominent incentive-based compensation and new human-resource-management plans were developed by business school researchers. The popular field of strategy was pushed to useful rigor by social scientists in business schools. Many other examples are noteworthy—from research on inventory control to behavioral economics.

Business schools have played the central role in this regard within the university for a reason. Top business schools have integrated social science and other research very well, and interdisciplinary understanding and collaboration is often more common than across disciplines within the arts and sciences. Many business innovations were led by researchers trained in a particular discipline (economics, for example), but with a cross-disciplinary discussion that was natural and encouraged within a business school.

The present challenge for the top business school, as I see it, is to inspire our researchers to be in close contact with business leaders, to answer practical questions for the rigorous and vigorous scrutiny of real-world application. By continuing to generate cutting-edge ideas that bridge theory and practice, a great business school’s research offers significant economic and social returns.
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