

COLLEGE OF BUSINESS, SAN JOSÉ STATE UNIVERSITY

# Dividends



The Ethics and Leadership Crisis in American Business:  
Roundtable Forum

Executive Compensation

Alumni Exchange

Faculty News

WINTER 2003



San José State  
UNIVERSITY

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## A Time to Step Forward



It doesn't take much reflection to see why I, and possibly you, are feeling a bit out of sorts these days. Just check your local newsstand and thumb through any of the nation's business periodicals or daily newspapers. Articles describe significant

political and economic unrest, the latter even more difficult to comprehend as a result of the many business ethics violations that have severely shaken the world's confidence in our economic system. But I believe that we, as SJSU College of Business graduates, will play a significant leadership role in building a brighter tomorrow.

San José State University College of Business graduates are rooted in a unique set of core values and cultural norms that support our ability to navigate through these difficult times and to be positive leaders throughout our personal and business lives. So what are some of these core values and cultural norms that make us so uniquely prepared to survive and thrive in the coming years? From a value perspective, I see a number of common threads in my own set of personal values as well as in those of other SJSU College of Business alumni: trust, respect, uncompromising integrity, teamwork, and a perpetually positive

outlook on life and a belief that we exist to make positive contributions through our work and in our lives each and every day.

My observation is that the San José State College of Business student or graduate truly believes in "a world of possibilities" and is uniquely blessed to have the tools (values, skills and behaviors) to make them real.

Given the current challenges that fill our world and lives, how do we as an alumni base of over 25,000, create a brighter tomorrow? I'd suggest that we have been, and will continue to be, a major force in helping make a world of possibilities real—for our students, for our college, for our community and for the world.

With the confidence that is born from a true understanding of why we are uniquely well positioned both culturally and geographically to make a difference in the world, I hope we choose not to take a step backward to contemplate what to do next, but instead take a strong step forward. It's never wrong to step forward and be a leader. When in doubt, lead toward a better tomorrow by taking a single step in the right direction. Guided by our unique and strong set of values and cultural norms...just think of the possibilities.

Brad Maihack  
President: Alumni Association  
College of Business  
San José State University

### Regarding our new magazine format, you had this to say:

*Your new format is most impressive! I especially liked your choice of Jim Zuur for your cover article. Jim impressed me as a student and I've found him to be a special partner and a very good friend over the years.*

—Bob Loewer, Emeritus  
Professor of Marketing

*First of all, congratulations on a wonderful publication. The quality of the writing and the entire design of the new Dividends make it one of a kind. It puts a new focus on the college, and I am sure it has created a good buzz around campus.*

—Marcio Andrade,  
MBA, '02

## Alumni Exchange

### Bob Basso, BS '74, San Jose, CA

Bob has been in real estate since 1979. His real estate and property management service, R.J. Properties, has a new Cambrian office. [www.bobbassorip.com](http://www.bobbassorip.com)

### Ernest D. Cook, Accounting '88, San Jose, CA

Since graduating, Ernest has worked in accounting and IT organizations building computer-based business systems. Captain Ernest Cook was discharged this year from the Army reserve after serving 15 years with the National Guard. He currently holds a senior position with Silicon Valley Bank. [Ernest@CAJOCConsulting.com](mailto:Ernest@CAJOCConsulting.com)

### Warren B. Enos '56, Sunnyvale, CA

Warren will be retiring in May 2003 from Ohlone College as professor of management after 36 years of service.

### Jim Ferryman, BS '70, Costa Mesa, CA

Jim is the director of commercial real estate for Alliance Royale, LLC. He serves as a member of the Costa Mesa Sanitary District Board and ended an eight-year term on the board of Newport Mesa Unified School District in December 2002.

### William C. Himstreet, BA '47, Camarillo, CA

Dr. Himstreet was the Alpha Al Sirat recipient in 1947. He is retired professor of Business at University of Southern California, and celebrated his 80<sup>th</sup> birthday in January.

### Tony Perkins, MBA '02, West Los Angeles, CA

Tony is actually doing what he wrote about in his thesis, having started his own talent management company, Perkins Management. [tony@perkinsmanagement.com](mailto:tony@perkinsmanagement.com)

### Donna Sava, BS '93, Thousand Oaks, CA

Donna had her first children's book (*Teddy Bear Dreams*) published in September 2002. The book is a "read to" for children 4-6 years old, and is available at Amazon .com. [dsava@pawsnstuff.com](http://dsava@pawsnstuff.com)

### Stanton Simon, MSA '96, Pleasant Hill, CA

Stanton has started his own tax practice, SimonEA, in Pleasant Hill, Calif. [Stanton@simonea.com](mailto:Stanton@simonea.com)

### Toby C Solorzano Jr., BS '70, Claremont, CA

After 15 years in staffing and employment programs, Toby has a new assignment as deputy manager of diversity programs at JET Propulsion Laboratory, where he will complete 17 years of service in April. [toby.c.solorzano@jpl.nasa.gov](mailto:toby.c.solorzano@jpl.nasa.gov)

### We note with sorrow the passing of:

### Daniel W. Donahue, BS '63

Chairman, Donahue Schriber

### Thomas M. Occhipinti, BS '74

Owner of Charles Moving and Storage.



## Record Number of Graduates in Fall Convocation

College of Business graduates—335 of them—took advantage of the 2002 Fall Convocation on December 19. Family and friends packed the San Jose Civic Auditorium to honor the graduates as they paraded across the stage. The College of Business Alumni Association has sponsored this event for the last two years.

The Fall Convocation allows graduates to participate in a smaller, more personal ceremony.

Dean David Conrath told students that they had the tools to embark on a successful future, and Brad Maihack, president of the College of Business Alumni Association, congratulated the newly eligible SJSU College of Business Alumni.

Dick Conniff, MBA '87, shared with the graduates his pride at being a SJSU COB alumni and how he benefited from his education.

## Richard Conniff to Receive Distinguished Alumni Award

Richard (Dick) Conniff will receive the Distinguished Alumni Award at the 45<sup>th</sup> Annual College of Business Corporate-Student Awards Banquet on Thursday, March 20, at the Fairmont Hotel in San Jose.

One could say that banking has always been in his blood. Dick Conniff began his career in banking at the end of his senior year of high school with an after-school job at Farmers & Merchants Bank. He continued working for

Farmers & Merchants while attending Long Beach State, and in 1967 married his first supervisor, Sandi Pinney. Recognizing that the work he was doing at the bank was interesting and rewarding, Dick changed his major to accounting and graduated with a BS in 1969.

After moving to San Jose in 1977 with his wife and two young sons, his banking career flourished. In 1984, while an executive at California Business Bank in San Jose, Dick was accepted into the MBA program at San José State. He attended the off-campus program on evenings and weekends while dealing with the increasing demands of his banking position and two small children.

In 1985, he became president and CEO of California Business Bank, and with the support of his family, professors and classmates, was able to complete his MBA and graduate in 1987. During this period, Dick developed a great respect and appreciation for the SJSU College of Business, which continues today.

Like many of his banking contemporaries, Dick experienced a number of mergers and acquisitions during the past twenty-five years. While somewhat unsettling, these mergers created many opportunities, including serving as president of five different institutions. Today, Dick is president and chief operating officer of Heritage Commerce Corp., a bank holding company headquartered in San Jose. He has maintained his connection with the College of Business by serving on the board of the College of Business Alumni Association, including several years as president. He currently serves on the Dean's International Board of Advisors. Dick and his

wife, Sandi, have supported many College of Business activities including the Annual Giving Fund, Annual Awards Banquets and the Business Classroom Renovation Project. Dick credits his

many connections with San José State University for a successful and satisfying career.

In addition to his involvement with SJSU, Dick is currently a member of San Jose Rotary, a trustee of Ballet San Jose/Silicon Valley, a director of First Commu-

nity Housing, a non-profit developer of affordable housing, a member of the investment committee of VIA Rehabilitation Services, and a member of the California Bankers Association. Both Dick and Sandi Conniff believe that community service is a privilege and a responsibility.

In the early 80's Dick developed a close friendship John Baird. John was a marketing professor at SJSU, College of Business. They began taking their children on backpacking adventures. Now that the children have grown, Dick and John continue their adventures as members of a men's group. Dick graduated from SJSU and John left teaching to start his own business.

John Baird is currently a principal partner of ExecutivEdge of Silicon Valley. He was a professor in the College of Business at San José State University and holds the rank of full-professor in the Marketing/Communication area. As chair for the 45<sup>th</sup> Annual Corporate-Student Awards Banquet, John will introduce Dick Conniff, his friend of over 20 years, to community and corporate leaders, many of whom will come to honor him.

*For additional Banquet information contact the College of Business Alumni Office (408) 924-3430.*



John Baird and Dick Conniff

# Executive Compensation: Dog Feed Dog?

In the competitive environment of industry one often hears that it's a "dog eat dog" world. Well, in terms of executive compensation, it often seems to be more like "dog feed dog." Why do so many compensation sub-committees of boards of directors provide incredibly valuable compensation schemes to their top executives? The stated argument is that top executives are worth it; they provide an immense value added to the corporation. Note, however, that most of the members of those compensation committees are top executives themselves, and thus have a vested interest in ensuring that executive compensation attains the stratospheric level it has.

Compensation schemes are supposed to be the primary source of executive motivation, at least that's how it argued by executives themselves. But is that really true, or is it just plain greed? Why, when an organization does poorly, do many of those schemes continue to reward top management? If compensation is the source of motivation, then why do so many executives have "golden parachutes" imbedded in their contracts? How can money be a motivator if people get it whether they've done well or are fired? If high compensation is to cover the risk one has in one's job, how can there be risk if there is no real downside?

Any motivational scheme, to be meaningful, has to be sure that the behavior it elicits is consistent with the values and objectives of the organization. Admittedly, this is difficult to accomplish. Nevertheless, rewarding people for short-run behavior, especially when it might jeopardize long-run results, is completely contrary to the concept of an organization—something that is supposed to survive and prosper over the long run. Why are bonuses given for quarterly results, for achieving specific stock price targets? Why isn't compensation tied to how well the organization is doing five years, ten years from now? Why are executives so concerned about getting an immediate reward rather than one consistent with the long-run objectives of the companies they run? Perhaps compensation, outside of salary, should not come into play until retirement. Certainly it shouldn't be such that an executive gets it even if it ruins everyone else's retirement (e.g., Enron, WorldCom).

Individual motivators for an organization's leaders should not be so large and dependent on objectives that can be manipulated. If so, they tempt those receiving them to lose all sense of ethical behavior. And it's becoming increasingly apparent everyone has his or her price. OK, perhaps not *everyone*, as the vast majority of

executives maintain highly ethical behavior. But way too many have compromised acceptable standards of ethics for the average investor, the average citizen, to have any confidence in the leaders of industry. When they see annual remuneration in eight and nine figures, no one, other than a similarly rewarded executive, can understand such a state of affairs. This is especially true when neither the stockholders nor other employees are benefiting from executive decisions. After all, are CEOs really worth that much? It's interesting to note that in athletics, where performance is more readily observed, it's the athletes, not the coaches, managers and general managers who make the big bucks. Why are the great salespersons, the exceptional software writers, not similarly rewarded? They, after all, have a tremendous amount to do with the success of the organization.

Are there solutions? Of course, though many in Silicon Valley would be upset if they became practice. First, if options are to be used, two things should be in place. One, they should not be able to be exercised before an extended period of time, say five years. Certainly the often-used 180-day vesting period should be dispensed with immediately. Two, options should be expensed when issued so that the investment community can quickly recognize the apparent cost to the corporation. Fortunately, it is likely that this will become part of GAAP (generally accepted accounting procedures).

Second, salaries should reflect responsibility and risk, but if they are high, that should reflect true risk and realized contributions to the long run well-being of the corporation, and thus should not be accompanied by golden parachutes. If a candidate for a CEO position needs to be enticed to take a job with high risk, then a signing bonus, like those given to athletes, might make more sense. Third, no rewards should be provided for strictly short-run phenomena. Steady growth in positive results should be rewarded—over time. Radically varying results should not, and yet they can yield higher payoffs via the stock option route by the timing of their exercise, especially since the executive has insider information. Fourth, rewards for executive performance should be determined by relative rather than absolute performance. Providing stock options and bonuses when every organization is doing well makes little sense. Use the performance of benchmark organizations, and provide options and bonuses based on how well the corporation does in comparison to the benchmarks.

by  
David W. Conrath  
Dean, College of Business  
San José State University



*continued on page 13*

# The Ethics and Leadership Crisis in American Business: Causes and Cures

Lapses in ethics and honesty of major American corporations are under scrutiny by the administration and faculty of the SJSU College of Business, as well as the public, the press, and government regulatory and legislative bodies.

For this issue of *Dividends*, we brought together four key players in business and academia in a roundtable format to delve into causes and cures of the damaging financial irregularities uncovered in several of the nation's largest corporations.

What are the root causes? What is the role of education in establishing honesty and a strong ethical core in the business leaders of tomorrow? Are stronger laws and tougher oversight an answer?

These and related topics were discussed in November in San Jose by a distinguished panel moderated by Dave Satterfield, business editor of the *San Jose Mercury News*, the Silicon Valley-based newspaper heavily involved in covering the topic locally and nationally.

The panelists included Jerry Choate, chairman emeritus of The Allstate Corporation and an SJSU graduate; David Conrath, dean of the SJSU College of Business; Anne T. Lawrence, Professor of Organization and Management in the SJSU College of Business; and Gary J. Sbona, chairman and chief executive officer of Regent Management Corp., also an SJSU graduate.

*Photos by Robert Bain*

SATTERFIELD: Thanks to all of you for being here to help us understand the pressing issue of business ethics. I think it's safe to say that it has been a miserable time for business, both economically and ethically. We're in the middle of a recession and we have been witness to a parade of business scandals. We saw huge corporate scandals such as Enron, WorldCom, and Adelphia, where top executives appear to have constructed elaborate frauds. And there has been seemingly scandalous behavior on Wall Street, where analysts touted stocks publicly while they were privately trashing them. And there has been much focus on executive compensation and calls for more accurate accounting of everything from leases to stock options. There's a perception that there's a collapse of ethics in corporate America.

To start off, I'm going to ask you, Jerry [Choate], do you think these scandals have affected the way people think about big business?

CHOATE: Without question. People who aren't involved in business now have a perception of what it's about. They think business is run by people who are trying to line their pockets with money, and who don't really care about the ultimate consumer or the shareholder. It isn't necessarily that black and white, but that is the

perception among many today.

SATTERFIELD: How about you, Gary Sbona?

SBONA: I totally agree. When you're talking to people who really don't have a great deal of day-to-day experience in the business community, that is the focus of conversation. I've had people say to me very directly, "Are you one of those CEOs that does such-and-such?" It's something you have to pay attention to, because it gives you an opportunity to present a more balanced view of things.

SATTERFIELD: David Conrath and Anne Lawrence, how have these business issues gone over with students? Has it changed their views, and the way you teach?

LAWRENCE: We've seen the corporate equivalent of "The Perfect Storm," with a series of high-profile business failures, including Enron, WorldCom and others. It's affected everyone's perception of business, including students. I noted recently that public-opinion polling data now show that business executives are rated lower than politicians in the public's estimation, and I think that's a very telling development.

CONRATH: This has had a lot of impact at the university level. For instance, the American Association of Collegiate Schools of Business is doing surveys on if and how we are teaching ethics. And there was an article recently by a member of the Harvard Business School that said, "Forget ethics. Let's deal with law and educate students about the legal consequences of any of their actions." This is a new environment for schools of business.

SATTERFIELD: Do you think this is behavior that had gone on before, but was just covered up because stock prices kept rising? Or is there something exceptional here?

CHOATE: Well, there are 80,000 or so public companies in America, and if only one percent is doing something wrong that would be a big number. There will always be people who don't behave ethically. But when you have CEOs involved, well, they should be the ones keeping you in line. That could be the new aspect of the problem.

SBONA: That's the issue. It starts with the individuals at the top.

CHOATE: Right. And I think ethics are important, from the CEO down to every employee. It's also something that needs to be reinforced every year. And unless you can reinforce it from the top to the bottom of the company, and make sure that everyone is aligned behind it, you can have problems like Enron and these other companies.

SATTERFIELD: And do any of you know how many companies do have codes of ethics and enforce them? Do you think it's a common practice?



LAWRENCE: Most big corporations have codes of ethics. The challenge, as Jerry [Choate] said, is for the top executives to show in their own behavior the highest standards of integrity.

SBONA: It starts with common sense, moral conduct. A lot of it is just doing the right thing, and it has to start at the top. Because if it doesn't, there's nobody down below who is going to do it any differently.

I've been in a difficult part of business for 35 years, which is fixing companies that don't work. A lot of what we have found starts with that one thing that we now call "ethics." Somebody has decided to take a short cut. Somebody has decided to do something different. However, the media has put a tremendous spotlight on the wrongdoers, and rightfully so, but I don't believe that is representative of the vast majority of businesses.

SATTERFIELD: In the string of scandals that we have, do you think there is a common thread? Is it people just wanting to line their own pockets?

CHOATE: If you look at Enron, you had a CFO running a limited partnership, doing business with his own company, and profiting from the arrangement. How any board could look at that and not see conflict is just absolutely beyond me, but it happened. I'm sure that somehow they rationalized that it was a good thing to do, because they waived the code of ethics to do it.

SBONA: Lining pockets, I think, is really other than just monetary. I think one of the biggest single things that we face in corporate America or on a global basis is power. This is what really gets people motivated, what really gets people to take that risk.

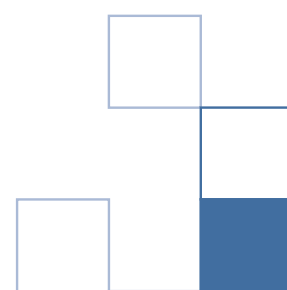
SATTERFIELD: Back to the issue of ethics, where do we stand with that in the education process? How do you balance that human desire for more with behaving ethically? How do you teach that?

LAWRENCE: Higher education is a particularly important time in a young person's moral development. We have to move away from the idea that everything you need to learn about ethics you learn in kindergarten, and acknowledge that there is room for ethical



**Jerry D. Choate**

*Jerry D. Choate is chairman emeritus of The Allstate Corporation. He was elected chairman of the board and chief executive officer of Allstate Corporation in 1995. Prior to becoming chairman, Choate served as president and chief executive officer, responsibility for field operations, pricing, marketing, and information processing. Functional departments were also under his direction, including claim, finance, human resources, operations, sales and underwriting. He also served as president of Allstate's property and casualty operations. Choate began his Allstate career in 1962 as an operations supervisor in the Santa Ana, California, regional office. He serves on the boards of Amgen Corporation, Valero Energy Corporation and Van Kampen Mutual Funds. Choate earned a bachelor of science degree in industrial management from San José State University.*





**David W. Conrath**

*David W. Conrath is the dean of the College of Business at San José State University. He started his academic career at the University of California at Berkeley, and held permanent positions at the Wharton School, University of Pennsylvania, and the Faculty of Engineering at the University of Waterloo (Canada). He had extensive teaching and research relationships with the Université d'Aix-Marseille III in France and Nanyang Technical University in Singapore. Immediately prior to joining San José State, Dr. Conrath was Professor of Management Science/Information Systems and Dean of the Michael G. DeGroote School of Business, McMaster University, Canada. Conrath received his B.A. from Stanford University, and his M.A. in economics and Ph.D. in business administration from the University of California, Berkeley. He also obtained an M.Sc. from Carnegie-Mellon University.*

development as a young adult. Psychologists who have studied this have presented us with some very clear evidence that we continue to develop our capacity for ethical reasoning into adulthood.

My view is that the best way to do that in the college environment is to present students with complex, real ethical situations, and analyze them from a variety of points of view.

CONRATH: That's a good point, but I would add that ethics as a behavior should appear in virtually every course where an ethical issue could be involved. Almost every organizational decision has an ethical component, which should be brought up at the decision level. We have two senior executives here, and I hope they'll agree with me that virtually every decision you face has a strong ethical component.

SBONA: Certainly, but I don't think that ethics, or the basis of teaching ethics, is always from the moral point of view. I think it also has to do with common sense, and what's the right thing, and simply making good decisions.

LAWRENCE: I think that ethics can be taught, and if I didn't think that, I wouldn't be doing it. And I think, more importantly, that it can be learned. I agree with Dave [Conrath] that it's something that we need to infuse throughout the curriculum; that is, we need to be talking about this in accounting classes, marketing classes, operations classes, and so forth. But we also need a standalone course in business ethics to provide some foundational knowledge for students as they encounter these issues across the curriculum.

Are there "right answers" to ethics cases? No, there are not. A good ethics case is one where there are a number of defensible positions that can be taken which are different. If a case has an obvious solution, it's not a good teaching case.

CHOATE: I told my senior-leadership group that if there's one thing in the company that we control, it's the environment, from the top. If we establish the proper environment inside this company, we will have ethical behavior. You demonstrate, top to bottom, day-in and day-out, that this is how your business is run.

For instance, once in a while, you have a very clear case. Someone will send you a new Calloway driver—the newest thing that just came out—and

say, "You know, we're driving for success for all these companies that we work with, and we know we can help you, and accept this as our ...etc." And my secretary would send it back, because I said, "Absolutely, under no circumstances, take anything, from anybody." It sends the right message to all employees that the policy is consistently enforced—from the top down. The guy in the mail room knows that Calloway driver is going back.

CONRATH: I think there's another factor that has an ethical component: executive compensation. If we take a look at how executives are rewarded, it is too often based on quarterly returns, rather than results 5, 10, or 15 years out. We've shortened our horizons. You behave very differently in a short run than you do over time.

CHOATE: Perhaps, but the best compensation plans basically have three components. One is base salary. The second would be an annual incentive of some sort, and the third would be long-term reward. And the long-term generally would mostly be stock.

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*"We're in the middle of a recession and we have been witness to a parade of business scandals... There's a perception that there's a collapse of ethics in corporate America."  
— Dave Satterfield*

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The annual incentive needs to be aligned, strategically, with what you're trying to accomplish, and one year is an important step along that line. And it has to be measurable, and it has to be something that you don't waver on. Longer term compensation would be, in most cases, the stock. If stock options are done properly—and I think most of them are—you only win if the shareholder wins.

CONRATH: But don't you feel that the ability to cash in a stock option ought to be sufficiently long term that you don't start manipulating quarterly returns to have a peak where you can cash in?

LAWRENCE: If you look at what happened at Enron with Ken Lay, 93 percent of his compensation in the year 2000 was from stock options. And what does that do? It gives him an incentive to do everything he can to prop up the stock prices, including cooking the books.

CHOATE: Well, I disagree with you, because the value of that company went from nothing to where it had a market cap of \$60 billion. A lot of people were making money on that stock, not just Ken Lay. I'm sure a lot of those were older options. My experience with big companies is that

you want consistency of performance. If you manipulate one quarter, you'll have to pay for it in the next quarter. The street is much more concerned about whether your performance is sustainable rather than what you do in one quarter.

CONRATH: As I recall, Ken Lay cashed in a number of his options after he knew that Enron was going down.

CHOATE: If he did, it's unethical, illegal. He's never been charged with that. But if he did trade on insider information, he should get the full penalties of the law.

SATTERFIELD: There is some talk out there, as you know, whether we ought to have rules that restrict when top executives can sell their shares. Should they wait until retirement?

CHOATE: Options are part of long-term compensation, and it's a package that you have to have to attract the people that you want to run your company. But if you're going to say that you can't cash them in until you retire, you may lose your top executives well before you want them to retire. I do, however, support the idea of having ownership requirements for top executives.



SATTERFIELD: Anne Lawrence, what are your thoughts on that from the academic standpoint?

LAWRENCE: Well, I think we need to take a broad look at executive compensation. Currently, average executive compensation is around \$12 million a year. Many executives get much more than that. Larry Ellison got \$700 million last year, mostly from stock options. So there's a very serious issue here about what kind of message that sends to our young people.

SATTERFIELD: It probably sends a message you want to be CEO.

SBONA: Well, the \$700 million that he made was based on the fact that options are now coming due and he's pretty good about not cashing out of all of his options. He takes a percentage on an annual basis, and was cashing out at a peak market value. You're talking in terms of taking 15

percent of his total holdings.

You know, I really think that what we have now is a focus by the media that says, "Let's take Larry Ellison on." I may not be a big fan of Larry Ellison in some ways, but I think he's run a hell of a company—the second-largest software-technology company in the world. And remember there are thousands of people who are the CEO and executives of companies that are making \$100,000 or \$150,000 a year. Those are the ones that we should keep in mind, as well.

SATTERFIELD: Well, let me give you an example that I think raises some issues. Michael Capellas left Hewlett-Packard to join WorldCom. The Compaq board had essentially revised the corporate charter to give him a \$14.4 million bonus if he left the new combined company within a year. And so he left the company with \$14.4 million. And I think a lot of people say, "Ethically, that sort of stinks." You know, he got a golden parachute after the deal had been announced.

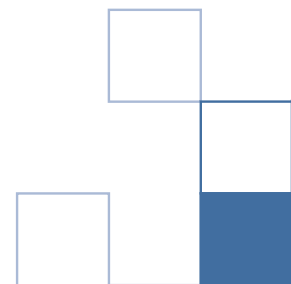
CHOATE: Well, here's a guy who had a big job, making a lot of money and all of a sudden is no longer running anything.

SBONA: It's probably true, but I think, as Jerry Choate pointed out, I think that both boards understood that if this was going to be in the best interests of the shareholder, one of those two,



**Anne T. Lawrence**

*Anne T. Lawrence is Professor of Organization and Management at San José State University. She holds a Ph.D. from the University of California, Berkeley, and completed a two-year postdoctoral fellowship at Stanford University. Prof. Lawrence is co-author of Business and Society: Corporate Strategy, Public Policy, Ethics, 10<sup>th</sup> edition (Irwin/McGraw-Hill, 2002). Her articles and teaching cases on issues of corporate social and environmental responsibility have appeared in many journals, textbooks, and anthologies. She has twice been named Outstanding Undergraduate Instructor at the College of Business.*





**Gary J. Sbona**

*Gary J. Sbona is chairman and chief executive officer of Regent Management Corp., a company he founded in 1974. His expertise is in general management, operations and finance, skills he has put to use in finding creative solutions for clients who need financial and operational restructuring and performance improvements. He has participated in over 100 engagements, providing analysis of alternative courses of action to underperforming companies. Sbona has also acted as an advisor or a principal in more than 75 mergers and divestment activities. In these roles, he is presently chairman and chief executive officer of Verity, Inc., Auspex Systems, Inc., and Clarent Corp. He is a member of the Turnaround Management Association, the International Federation of Insolvency Professionals, the National Association of Corporate Directors, and several organizations dealing with bankruptcy issues. He is a graduate of the College of Business of San José State University.*

without a doubt, was going to be gone within a year's period of time. So you have to set up a compensation package that makes the process work. That's how it looks from the outside, anyway.

CONRATH: Sure, the \$14 million sounds large, but if it's in line with past compensation, it does make some sense. But admittedly, once you have the WorldComs and the Enrons, etc., anything like this is going to become controversial. Whereas three or four years ago, it would have been ignored, and sort of seen as business as usual.

But the golden parachute concept is disturbing in a broad sense, because senior executives are compensated well as risk takers. That is fair. Their head is on the chopping block, if you will. But the golden parachute provides protection against risk. That defeats the purpose, and, frankly, it galls me. An executive can fail miserably and still walk away with an incredible bundle of money. No risk to failure exists.

SBONA: Over time, the concept of golden parachutes has changed. It was first used to ensure that past performance would be acknowledged, because people had spent years and years working for the company, and it was a way of taking care of senior people when they left. Now it's almost like a signing bonus—the severance package is decided up front.

CONRATH: And that's the problem I have.

SBONA: There still needs to be some protection for a senior exec when he or she is putting it all on the line in an effort to straighten out a troubled company.

CONRATH: But there are alternate ways of doing that. For example, you can let the CEO go, and then you can put him or her on a retainer under a consulting agreement. That's a fairly common thing.

SATTERFIELD: But on that issue of executive compensation, how about the ratio of CEO pay to the average worker. How do you prevent bitterness and dismay amongst the rank and file at the CEO's pay?

CHOATE: I think you have to make sure that all

of your employees are treated properly as related to compensation. You need to routinely review each level of the organization's pay grades against competition, making sure that they're being treated fairly. You also try to find ways to get employees involved in ownership of the company. I think that's very important.

SBONA: The essential thing is to treat people fairly. When they're performing to market level, they should get competitive salaries. They get pay increases, and you don't short-change either your customers or your employees.

But to say the lowest-paid person in the building makes X, and the CEO is 300 times that, here is my response: as long as that lowest paid person is competitively and fairly paid, and has a good range of benefits commensurate with what he's doing, and within the industry, then I think we are on solid ground. Whatever the CEO or the senior management are getting, if they're performing, then the shareholder base is getting their value. That's what I think is fair and competitive.

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*“One benefit of well-designed regulations that is often overlooked is that they protect honest firms from dishonest ones. Honest firms should lobby for certain kinds of regulations in their own self-interest.”*  
— Anne Lawrence

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LAWRENCE: So if a company is performing well, whose effort does that reflect? There's an assumption underlying some of your comments that the CEO deserves all the credit. Company performance is the result of a team effort, all the way from the level of the most-menial janitor, all the way up to the top executive, and I think we should acknowledge that.

CHOATE: Yes, but the CEO still owns the environment in a company, sets the strategic direction, and aligns all levels of the company in pursuit of the objectives.

SATTERFIELD: Let's turn to the role of government. The Securities and Exchange Commission, I think, has largely been seen as a fairly effective regulator, but seems to be better at slapping hands than really going after people. I wonder if you think that environment is changing. Should government be more involved in the regulation of public companies? Or is that a dangerous thing?

LAWRENCE: Yes, government has a very important role. It needs to establish and enforce the “rules of the game” that make the game fair for all. That includes laws requiring full disclosure

of information and democratic corporate governance, and laws protecting shareholders, employees, and customers from unfair business practices. Sarbanes-Oxley is a step in the right direction.

One benefit of well-designed regulations that is often overlooked is that they protect honest firms from dishonest ones. Honest firms should lobby for certain kinds of regulations in their own self-interest.

CHOATE: Setting the standard for business conduct is important, but the difference is that it always swings from 3 to 9, you know? There's no 6, no middle ground. So every time there's a reaction to something, it's generally an overreaction.

CONRATH: And it's always after the fact.

SBONA: The Sarbanes-Oxley law has not, in fact, identified one particular measure of responsibility or guidance or direction. What it really did is clearly articulated what the penalty is going to be if you do certain things. But I don't need somebody to come out and say, "Read the Sarbanes-Oxley act before you sign the paper that says you're certifying that what it is that you're signing for represents good, honest accounting practices." I've been doing that for 25 years. I've always thought I'd been responsible for it from the very first day.

CHOATE: There's a big cost to regulation, and, if you're going to compete in the world economy, you don't need to be over-regulated. That doesn't mean that you shouldn't have appropriate

regulation. My biggest fear is that it goes too far. But having said that, coming out of this, we'll probably be better off with this new approach to regulation.

SBONA: We're focusing on the CEO, but it's middle-management that has the greatest amount of pressure to perform, hit the standards, etc. And it's incumbent upon the CEO of that organization to know that somebody is cutting corners, somebody is booking revenue that is right up to the limit. We place so much pressure on short-term performance that middle managers might take that risk.

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*"The role of the board is going to change. That will include involvement in compensation, auditing, and selection of senior executives. A number of those things must be taken more seriously."*  
— David Conrath

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CONRATH: You raise an interesting point regarding middle management. I'm reminded of the electricity generators price fixing case quite a few years ago involving Westinghouse and GE and others. And it was the people in upper and middle management ranks who were under all sorts of pressure to bring in more gross and net revenue and one great way to do that was to make sure

that when you sell, you sell high, at a great profit, which led to collusion.

It was interesting how the companies reacted. I remember that, at Westinghouse, the CEO came out and said, "It's my responsibility." And the GE CEO said, "Oh, I didn't know anything about it. We'll fire 'em." And my opinion of those two companies became radically different.

SBONA: That can be an issue—the isolation of the senior-level people. One of the things that I heard in an interview with Ken Lay is that he was unaware of the problems. He didn't talk to these people. But that's the responsibility the CEO has, to be out and about and be alert to these things.

CONRATH: And one of the best statements I've heard was by Bill Gates, and I don't admire everything he does, but he said, "I want bad news to travel fast."

SATTERFIELD: To wrap up, let me ask what you think will be the most important lessons and behavioral changes that come out what we've seen in American business over the last two, three years?



**Dave Satterfield**  
(panel moderator)

*Dave Satterfield is business editor of the San Jose Mercury News, overseeing a staff of 50 reporters and editors who cover the technology-rich Silicon Valley region. Recent coverage has focused on the downturn in Silicon Valley, the botched Hewlett-Packard/Compaq merger, and the string of abuses in corporate America, both nationally and locally. Satterfield has been a journalist for 21 years. Before joining the Mercury News, he worked 17 years at the Miami Herald as a business reporter and editor. He was named the Herald's business editor in 1994. In 1995, Satterfield was named city editor, overseeing all local news coverage, until 1998. A team of his reporters won the Pulitzer Prize after uncovering rampant voter fraud in a Miami mayoral election. Satterfield is a graduate of the University of Notre Dame, with a master's degree in journalism from Northwestern University.*



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*“If we establish the proper environment inside the company, we will have ethical behavior. You demonstrate, top to bottom, day-in and day-out, that this is how your business is run.”*  
— Jerry Choate

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CHOATE: Well, what will come out of it will be much better scrutiny of business, at every level. Initially there will probably be some confusion about how it's done, and you'll probably be answering to more than one regulator. I think it's going to take a while for the confidence of the investing public to return. But when it does, hopefully we'll have a more rational investment environment.

SBONA: You know, the witch hunts in Salem didn't curtail any of the supposition that there was a lot of trickery and witchcraft going on out there. Just killed a whole bunch of innocent people. I'm concerned that we may have that effect here. We have a relatively short attention span and memory for these kinds of situations. A number of years ago, there was a major corporate issue that played out in the press. It was the matter of paying off people in foreign lands to do business, whether the oil companies or the technology companies or others.

After four or five years that story became absolutely played out in the press and we heard very little more about it.

I'm afraid that this kind of situation will go the same way. Something else will take its place. The markets will come back. When the capital markets regenerate themselves—and it's not a question in my mind of if, but when, those markets will start to come back slowly.

SATTERFIELD: Anne Lawrence, what are your thoughts, aside from having more fodder for your case studies?

LAWRENCE: I see the current rash of corporate scandals as an opportunity for some positive change. Within my own field of management education, I think it's an opportunity to infuse more ethics courses into our curriculum, and I hope that will happen. I think there are also going to be changes in the structure of corporate governance in the United States. We will have people taking a close look at how boards are selected and compensated and how they do their work, how they're organized.

There will be significant reform in the accounting profession, which is something that we haven't really talked about here. But with the shakeout of Arthur Andersen, I think we're going to be looking at positive changes both in the accounting rules themselves, and in issues of conflict of interest within the accounting profession. I think there are going to be some changes within the investment

banking and brokerage industries. People are going to take a look at the issue of conflict of interest for stock analysts.

CONRATH: First, my biggest concern is what you raised, Gary [Sbona]: I'm afraid that five or ten years from now, this is just going to be in the wash, and everybody's going to forget. And we can go back, because every decade there's another scandal of different sorts. There were environmental issues, with the big ships going down and spreading oil all over. And now we have had what you could call the scandal of the decade. Let's hope it's the last—at least for a while.

Number two, I think that corporate governance, in particular, the role of the board, is going to change. We will be far more conscious of what a director is supposed to do and what the role of the board is supposed to be. That will include involvement in compensation, auditing, and selection of senior executives. A number of those things must be taken more seriously. I am concerned a bit, because the liability of the directors is also going to go up; we don't want to scare away people who we want on those boards.

CHOATE: We need some good news out of business. We need to gain the public's confidence. It would be nice to see the markets recover, but I hope we don't go into another period where stocks are badly over-valued or we might just relive this all over again.

SATTERFIELD: Well just to wrap it up, here is a sign of the times: In the newspaper business every year an institute puts out a book called “The Best Stories of the Year.” I was walking by a book reviewer's office yesterday, where he piles up books, and there was actually a book edited by somebody at the *New Yorker*, called “Best Business Crime Stories of the Year. First edition.”

SBONA: There's always a silver lining. Somebody's going to make a profit out of this somehow.

## Introducing New COB Faculty

The San José State University College of Business appointed 17 new faculty members for the academic year 2002-2003. The new appointments primarily reflect growth in enrollment in the COB, plus position replacements. Eight of the new faculty were introduced in the fall 2002 issue of *Dividends*, and the others are profiled here.

### Subhankar Dhar

Subhankar Dhar joins as Assistant Professor in the MIS department. Subhankar received his PhD in Mathematics with a concentration in Computer Science from the University of South Florida. He also has an MA in Statistics, and a MSc and BSc in Mathematics. Dhar taught at SJSU as a lecturer and has industry experience working as a solutions developer for SAP Labs. Dr. Dhar's research interest is in wireless and data management technologies.

### Prescott (Scott) Ensign

Scott Ensign teaches International Business. He is completing his PhD in International Business at HEC, University of Montreal, Montreal, Quebec. He received an MBA from Clemson in 1992 after which he taught Principles of Management and Business Strategy at Kent State University. Ensign's research focuses on innovation in physically and technologically distributed R&D—specifically, knowledge sharing and knowledge building within the multinational enterprise.

### Mary F. Fortune

Mary F. Fortune teaches Business Communication. She holds a Doctorate in Education, Organization and Leadership, and two Masters Degrees: one in Counselor Education and the other in Higher Education. Her research interests lie in communication and technology. In addition to her role at San José State University, she owns her own consulting business, Leadership by Design. As a consultant, Fortune provides organizational and leadership development training, workshops, and seminars. Currently, she is working with a team that

is developing a website for the Student Affairs division, and the Women's Basketball program at San José State University.

### Frank J. Jones

Frank J. Jones's area of expertise is finance. He joins the faculty from The Guardian Life Insurance Company of America, where he held the position of executive vice president. There Jones managed a \$29 billion portfolio of bonds, equities, and real estate. He is also on the board of directors of the International Securities Exchange, is an Adjunct Professor of Finance at New York University, and a lecturer in Yale University School of Management. In addition, Jones has guest lectured at schools of business, of MIT, Rutgers, and Columbia. He serves on the editorial board of the *Financial Analysts Journal*.

### John Lundin

John Lundin joins as an Assistant Professor in the MIS department. Lundin received his PhD in Business Administration with a major in information systems from the University of Texas at Arlington. He also received his MBA and BSBA from the University of Denver. He taught at George Mason University, University of North Carolina at Chapel Hill, and recently at Baylor University. Lundin's research interests include Information Economics and Organizational Infrastructure, Mediated Organizational Communication and Information Technology in Corporate Strategy.

### Asbjorn Osland

Asbjorn Osland is currently teaching Fundamentals of Management and will teach International Business in the future. He earned a Ph.D. in organizational behavior at Case Western Reserve University in 1994. From 1998 to 2002 Osland was the MBA Program Director at George Fox University. Each year he teaches a one-week graduate level course in organizational behavior and theory at the Universidad Tomas More in Nicaragua. He has taught a number of workshops on case writing at the CIBER (i.e., Center for

International Business Education and Research) conferences, and at his former university. Osland is president of the Western Case Writers Association.

### Mahesh Rajan

Mahesh Rajan is teaching Marketing Management. He received a PhD in International Business/Business Policy and Strategy from the University of California, Irvine, in 1994. Mahesh served as a faculty member at the Business School, University of Michigan, Australian Graduate School of Management, University of New South Wales, and School of Global Economics and Business, Nagoya University. Mahesh received a Japan Foundation Dissertation Fellowship and multiple research grants from the Australian Research Council.

### Simon Rodan

Simon Rodan teaches Strategic Management. After completing a degree in physics from Imperial College in London, Simon worked for IBM for seven years. Then he earned an MBA and a PhD from INSEAD. Simon has authored a number of papers, cases and industry notes dealing with deregulation in the European telecommunications industry and related business topics. His current research deals with innovation, knowledge and social network structure.

### Rob Sibley

Rob Sibley teaches Integrated Marketing Communications and Marketing Research. He earned his Ph.D. in Business Administration (Marketing) from Georgia State University in 1999. He joined COB after a four-year affiliation with Whittier College. Sibley's research in the areas of inter-organizational relationship quality, strategy, and international marketing has resulted in the publication of six refereed national and international conference proceedings papers. He has 15 years of real-world business experience with firms ranging in size and scope from entrepreneurial startup ventures to Fortune 50 icons such as Procter & Gamble and PepsiCo. A graduate of Davidson College with a degree in Economics, he also holds an MBA from the University of North Carolina.

## Student Leadership Key to FMA Turnaround

The San José State University Financial Management Association (FMA) earned the FMA Silver Membership Development Award for the 2001-2002 school year, according to faculty advisor Bill Devincenzi. The award is based on demonstrated excellence in the recruitment of new student members to its chapter.



**Bill Devincenzi**

The Silver Membership Development Award indicates that the FMA chapter has recruited between 75 and 99 students through the school year. It is given to less than three percent of all chapters around the world. Devincenzi, who has been faculty advisor for the past two years, said, "The leadership team has done a marvelous job and they deserve recognition."

Sean Nearhoff, club president, attributes its tremendous growth to a strong leadership team each semester over the past two years. "The strength and consistency of our leadership has allowed each group to build off the previous semester's accomplishments and grow FMA to where it is today."

Building upon last year's success, the club has continued to boost its membership ranks up to its current level of 104 members, which means that the chapter will next receive the Gold Award (a step above the silver award, and earned by approximately one percent of all FMA chapters nationwide).

The purpose of the club is to give finance and accounting majors the opportunity to develop the technical and interpersonal skills they will need to succeed after college. The club hosts guest speaker meetings, social events, community service activities, corporate tours, and stock competitions. Students are becoming more aware of the benefits that FMA provides.

## Prof. Dean to Head Entrepreneurship Research Group

Professor Burton V. Dean has been appointed director of the Silicon Valley Center for Entrepreneurship (SVCE), reporting to the Dean of the College of Business.



SVCE's primary mission is to conduct applied research in the field of entrepreneurship and related areas. To further this cause it aids faculty throughout the University to obtain funding of their entrepreneurship-related research projects.

The Center works closely with community organizations such as incubators, financial groups, and professional support services to advise entrepreneurs in Silicon Valley. SVCE also serves the entrepreneurship community by sponsoring business plan competitions, advising the students' entrepreneurship society, and transferring entrepreneurship knowledge to key constituencies.

*For additional information, please contact Professor Dean at [dean\\_b@cob.sjsu.edu](mailto:dean_b@cob.sjsu.edu).*

# The Financial Challenge Ahead... And Some Responses

By David Conrath

This year is going to be an extremely challenging one. Undoubtedly you are all aware of the State of California's budget crisis. No matter what is done to resolve the current deficit, it is very likely that over the long run the State will fund an increasingly diminished proportion of the cost of post-secondary education. One consequence is that extremely low tuition will no longer be sacrosanct. Hence, those going to one of the state-supported universities will be expected to pay a larger portion of the cost of their education. It follows that we will need to assure that those who have financial constraints will still be able to get a College of Business degree. Tuition, however, will not rise at a rate sufficient to offset the losses in State funding. This situation requires that we seek revenue from other sources, especially if we wish to maintain high-quality educational programs, and better yet, improve them.

One tactic that we continue to pursue is to increase the size and numbers of our fee-based programs, those which are not supported by the State. The income from these enables us to hire and retain outstanding faculty as well as support SJSU as a whole. While the net revenue is not nearly as great as we would like, we are looking at new opportunities, including some in the Far East. Hopefully, one or more of these will eventually bear fruit, and we will be able to provide greater support for our students, faculty and staff.

Not surprisingly, whatever we accomplish in these programs, we will need substantial support from our alumni and friends. When you think about it, those who received degrees from the College of Business got an education, that in terms of value per dollar spent, was as good or better than one could have found anywhere else. To assure that this still holds, you will surely be asked to support us so that we can continue to improve. As the saying goes, every little bit helps.



Dean, College of Business  
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### Legacy Benefits

Gifts from wills and trusts may create a lasting legacy while assist us in providing the finest in higher education. Through this legacy, you may designate the use of the gift itself, whether it is to provide scholarships, faculty enrichment, or to fund programs of special interest.

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*For more information about these and other opportunities to make meaningful gifts while obtaining personal planning benefits, please contact the Development Department at SJSU.*

## Executive Compensation:

*continued from page 3*

Executive compensation is a hot topic these days, and no scheme is without criticism. Nevertheless, there are many things that can be done to improve the acceptability of compensation outside of the executive hierarchy, and which in turn would improve the public's attitude toward executives, the organizations they manage, and their willingness to invest in the latter. And who knows, they might have a positive effect on executive performance.

## Jack Holland Scholarship Fund Established

For many students, college provides a very enriching experience where they discover independence, form life-long ties with peers, and learn facts and skills that prepare them for future careers. Some are lucky if a faculty member becomes a mentor or advisor. Professor Jack Holland was such a man for many at the College of Business (SJSU School of Business, as it was formerly known).

Dr. Holland taught on the business faculty at SJSU from 1948 to 1979. He established a chapter of the Society for the Advancement of Management and launched the Alumni Association Awards Banquet, now in its 45<sup>th</sup> year. He taught at the Stanford Graduate School of Business, lectured at Oxford University and Witswatersrand University, South Africa, and has presented seminars all over the world.

Jack was a fraternity advisor, mentor and friend to many students. He balanced his advice and discipline with compassion and a great sense of humor. Attesting to the close bond he formed with so many on campus, Jack stays in touch with



Steve Coates hosted a reception at his home in January to celebrate the establishment of the scholarship endowment. Pictured left to right: David Conrath, Fernando Zazueta, Jack Holland, Steve Coates, Pat O'Daniels.

nearly 100 former students. He still lives in San Jose but his mobility is a bit limited now, keeping him from pursuing the traveling he loves.

In appreciation of this wonderful person, several alumni created the Jack Holland Scholarship Fund to celebrate his 80<sup>th</sup> birthday this October. A nucleus committee formed, chaired by Patrick O' Daniels and Fernando Zazueta, which sent letters to friends and alumni to invite them to show their appreciation for Jack by donating to the fund. Over \$35,000 was raised from 135 contributors. Interest from the endowment fund will provide an annual scholarship to a junior or senior enrolled full-time at the College of Business, who is involved in extra-curricular activities.

## Glenn George Endowment Announced

College of Business alumni and friends are honoring Glenn George, who gave selflessly to the University and community-at-large, by establishing the Glenn George Memorial Fund. Glenn received a Bachelor of Arts degree in Business Administration in 1951 and was a long-time resident of San Jose. He passed away in April 2001 at the age of 70.

Glenn is recognized for his generous support of SJSU, as well as many charitable and civic organizations throughout the community, such as the San Jose Rotary Club.

Brad Baron, one of the principal drivers behind this effort, said, "Glenn was a unique individual. He was involved in many organizations

that benefited our community, and maybe more importantly, he stimulated others to get involved. My participation started because Glenn asked me to participate on the Banquet dinner committee. I consider this endowment very exciting, not only because it is a tribute to Glenn, but also because it will help outstanding graduate students to advance their education."

Dick Conniff, recipient of the Alumnus of the Year Award for 2003 (see article, page 2), helped to launch the endowment with a lead gift of \$25,000 from Heritage Bank of Commerce. The interest generated from the endowment will fund the Graduate Student of the Year Award, which is awarded at the COBAA banquet.

*Note: If you would like to donate to either of the funds mentioned above, please send your contribution to the College of Business in care of Liz Harvey, Development Officer, or make your gift online at <http://www.sjsu.edu/development.html>.*

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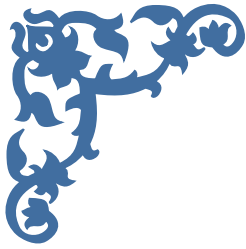
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## 2003 College of Business Annual Awards Banquet

*Distinguished Alumni Award Recipient and Guest Speaker:*

*Richard Conniff (MBA'87)  
President and COO  
Heritage Commerce Corporation*

*Dinner Committee Chair:  
John W. Baird, Ph.D.  
Principal Partner  
Executive Edge of Silicon Valley*

*Thursday, March 20, 2003  
Imperial Ballroom  
Fairmont Hotel, San Jose  
Social Hour: 5:45PM  
Dinner: 6:45PM*

*Tickets: \$200 (Individual Seats); \$10,000 Platinum Sponsorship; \$6,000 Gold Sponsorship  
\$3,000 Silver Sponsorship; \$250 ½ page ad in banquet program.*

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