

**INSEAD**

The Business School  
for the World

## **R&D NEWS**

**January/February 2006**



# Index

<b>Awards and Honours .....</b>	<b>3</b>
 <b>Publications</b>	
Books .....	4
Journal Articles.....	6
Chapters in Books .....	11
Working Papers .....	14
Case Studies .....	19
 <b>Seminars/Workshops</b>	
Faculty Seminar Series.....	23
Off-Campus Conference Attendances.....	27
 <b>Projects Managed by R &amp; D</b>	
Research .....	29
Case Development.....	32
 <b>Other News .....</b>	 <b>33</b>

## Awards and honours

### International Association for Chinese Management Research (IACMR)

2006 IACMR Distinguished Contribution Award

**Gordon REDDING**

### Journal of Consumer Research

2005 Outstanding Reviewer Award

**Ziv CARMON**

### Journal of Marketing Research

2006 Paul E. Green Award

Finalist

*“Placebo Effects of Marketing Actions: Consumers May Get What They Pay For”*

**Baba SHIV, Ziv CARMON and Dan ARIELY**

### The European Foundation for Management Development (efmd)

2005 Case Writing Competition

Category: Corporate & Social Responsibility

*“The TPG-WFP Partnership Series: Learning How to Dance – Looking for a Partner”*

**Luk VAN WASSENHOVE and Rolando TOMASINI**

### The European Foundation for Management Development (efmd)

2005 Case Writing Competition

Category: Entrepreneurship

*“Arpège: Creative Dining in Paris”*

**Jean-Claude LARRÉCHÉ, Ruth LEWIS and Zohra JAN MAMOD**

### The European Foundation for Management Development (efmd)

2005 Case Writing Competition

Category: Supply Chain Management

*“Katoen Natie (KTN) enters Asia”*

**Charlotte BUTLER and Dirk VAN DEN BERGHE**

### The Marketing Science Institute (MSI)

2005 MSI/H. Paul Root Award

*“Balancing Acquisition and Retention Resources to Maximise Customer Profitability”*

**Werner REINARTZ, Jacquelyn THOMAS and V. KUMAR**

### The Marketing Science Institute (MSI)

2005 MSI/H. Paul Root Award

(Honorable Mention)

*“Do Intentions Really Predict Behavior? Self-Generated Validity Effects in Survey Research”*

**Pierre CHANDON, Vicki G. MORWITZ and Werner J. REINARTZ**

## Publications

### Books

**DOZ Yves, Gabriel SZULANSKI and Joe PORAC (eds.)**

***Strategy Process, Advances in Strategic Management***. Vol. 22. JAI Press. January 2006.

Over the years, research on strategizing and the strategy process in organizations has flourished. Several special issues of journals and many conferences and workshops have been devoted to the topic. Yet, the notion of process continues to intrigue, tantalize, and frustrate strategy and organization scholars. While the promise of process research remains high, the reality of the strategy process is often elusive. This issue of *Advances in Strategic Management* continues the conversation on the strategy process by bringing together strategy and organization scholars from around the world, who are doing cutting edge research on the process of strategizing. The nineteen chapters explore the strategizing process at multiple levels of analysis and from various viewpoints. As such, the volume represents an attempt to summarize the state-of-the-art among researchers interested in the strategy process as a domain of inquiry.

The introduction "Strategy Process: Introduction to the Volume" was written by the Editors.

**DUTTA Soumitra, Arnoud DE-MEYER, Amit JAIN and Gerard RICHTER (eds.)**

***The Knowledge Economy in Europe: Integrating the New Member States***. Springer Verlag. September 2005.

This book provides a detailed analysis of the state of ICT development prevalent in the European Union in 2004, the year in which 10 new member states gained accession to the European Union. The book presents a benchmarking study of the 10 new member states and 3 candidate countries of the European Union as compared to the 15 incumbent countries with respect to ICT development. Using a framework based on the eEurope 2005 benchmarking framework, the 28 EU members and candidate countries are ranked according to their level of ICT development, and then classified into 4 categories.

**LOCH Christoph H., Arnoud DE MEYER and Michael T. PICH**

***Managing the Unknown: A New Approach to Managing High Uncertainty and Risk in Projects***. New York: John Wiley. 10 March 2006.

This book makes two main contributions to understanding the management of novel projects with uncertainty. Typically, novel initiatives with high competitive significance have these characteristics, yet, performance of such projects is often poor. First, we offer a different way of looking at the problem of managing novel projects: rather than working harder, straining to consider more possibilities in planning and formal risk management, we propose that one must recognize that project novelty fundamentally renders planning approaches insufficient. In such cases, project managers must make use of two fundamentally different approaches to project management: learning, or a flexible adjustment of the project approach as one learns more about the project, its environment and their interactions (as opposed to a contingent approach that utilizes planned 'trigger points'), and selectionism, or pursuing multiple approaches independently of one another and picking the best one *ex post*.

Second, these approaches must be managed differently from each other and from the traditional planning approach; they require different *project mindsets*, different *project infrastructures*, and different *supplier and stakeholder relationships*. Organizations must be aware of these differences if they are to build the organizational capabilities critical to managing novel projects and to properly support these novel projects within an often hostile environment.

The book offers a conceptual framework of looking at these management approaches, managerial examples, and actionable recommendations on what to do.

**MAAK Thomas and Nicola PLESS (eds.)**

***Responsible Leadership.*** Routledge. February 2006.

While there is a high demand for knowledge on responsible leadership, until now, there has been no source able to meet that demand. Enron, Worldcom and other high-profile cases of management and leadership misconduct have highlighted the need for such a book to provide the reader with crucial insights on such issues as responsible leadership, which leadership competencies are needed, and how to develop responsible leaders.

Experts in the field of business and leadership ethics have now been brought together to write this much-needed text. It answers the challenge of defining responsible leadership in an era of globalization, and as such is highly topical and relevant to all those on the path to becoming responsible leaders.

**SMITH Roy and Ingo WALTER**

***Governing the Modern Corporation: Capital Markets, Corporate Control, and Economic Performance.*** Oxford University Press. February 2006.

Nearly seventy years after the last great stock market bubble and crash, another bubble emerged and burst, despite a thick layer of regulation designed since the 1930s to prevent such things. This time, the bubble was enormous, reflecting nearly twenty years of double-digit stock market growth, and its bursting had painful consequences. The search for culprits soon began, and many were discovered, including not only a number of overreaching corporations, but also their auditors, investment bankers, lawyers and indeed, their investors. In this book, the authors analyze the structure of market capitalism to see what went wrong. They begin by examining the developments that have made modern financial markets – now capitalized globally at about US\$70 trillion – enormous, so volatile and such a source of wealth (and temptation) for all players. Then, they report on the evolving role and function of the business corporation, the duties of its officers and directors and the power of its Chief Executive Officer, who seeks to manage the company to achieve as favorable a stock price as possible. They next turn to the investing market itself, which comprises mainly financial institutions that own about two-thirds of all American stocks, and trade about 90% of these stocks. These investors are well informed, highly trained professionals capable of making intelligent investment decisions on behalf of their clients, yet the best and brightest ultimately succumbed to the bubble and failed to carry out an appropriate governance role. In what follows, the roles and business practices of the principal financial intermediaries – notably auditors and bankers – are examined in detail. All, corporations, investors and intermediaries, are found to have been infected by deep-seated conflicts of interest, which add significant agency costs to the free-market system. The imperfect, politicized role of the regulators is also explored, with disappointing results.

**WITT Michael**

***Changing Japanese Capitalism: Societal Coordination and Institutional Adjustment.*** Cambridge University Press. Forthcoming 2006.

Abstract not available.

## Journal articles

**CHANDON Pierre and Brian WANSINK**

**Is Obesity Caused by Calorie Underestimation? A Psychophysical Model of Fast-Food Meal Size Estimation.** *Journal of Marketing Research*. Forthcoming, November 2006.

Also Revised version of INSEAD Working Paper N° 2005/12/MKT

Calorie underestimation is often alleged to contribute to obesity. By developing a psychophysical model of meal size estimation, the authors show that the association between body mass and calorie underestimation found in health science research is a spurious consequence of the tendency of people with a high body mass to choose – and thus estimate – larger meals. In four studies involving consumers and dieticians, the authors find that the calorie estimations of high- and low-body mass people follow the same compressive power function; that is, exhibit the same diminishing sensitivity to meal size changes as the size of the meal increases. They also find that using a piecemeal decomposition improves calorie estimation and leads people to choose smaller, yet equally satisfying, fast-food meals. The findings that biases in calorie estimation are caused by meal size, and not body size, have important implications for allegations against the food industry and for the clinical treatment of obesity.

**DERMINE Jean**

**European Banking Integration: Don't Put the Cart Before the Horse.** *Journal of Financial Markets, Institutions and Instruments*. Forthcoming 2006.

Also INSEAD Working Paper N° 2005/66/FIN

This paper reviews the progress in European banking integration over the last twenty years, and evaluates the current system of banking supervision and deposit insurance based on 'home country' control. The public policy implications to draw from the paper are threefold: First, after a relatively slow start, European banking integration is gaining momentum, in terms of cross-border flows, market share of foreign banks in several domestic markets, and cross-border M&As of significant size. If this trend continues, the issue of adequate supervision and safety nets in an integrated European banking market will become even more pressing. Second, although until recently, banks have relied mostly on subsidiary structures to go cross-border, this is changing with the recent creation of the European company statute, which facilitates cross-border branch banking. A review of the case of the Scandinavian bank, Nordea Bank AB, sheds light on some remaining barriers to integration, and the supervisory issues raised by branch banking. Third, it is argued that the principle of 'home country' supervision is unlikely to be adequate in the future for large international banks. Because the closure of an international bank would be likely to have cross-border spillovers, and because some small European countries might be unable to finance the bail-out of their very large banks, centralization, or at least Europe-wide coordination, of the decision to close or bail out international banks is needed. This raises the issue of European funding of bail-out costs, European banking supervision, and European deposit insurance.

**DOZ Yves and Don LAURIE**

**Creating New Growth Platforms.** *Harvard Business Review*. Forthcoming 2006.

Abstract not available.

**DOZ Yves**

**Knowledge Creation, Knowledge Sharing and Organizational Structures and Processes in MNCs.** *Journal of Management Governance*. Forthcoming 2006.

Abstract not available.

**FATÁS Antonio and Ilian Mihov**

**The Macroeconomic Effects of Fiscal Rules in the U.S. States.** *Journal of Public Economics*. Vol. 90, N° 1-2. January 2006. Pp. 101-117

Fiscal policy restrictions are often criticized for limiting the ability of governments to react to business cycle fluctuations and, consequently, the adoption of quantitative restrictions is viewed as inevitably leading to increased macroeconomic volatility. In this paper, data from 48 US states are used to investigate how budget rules affect fiscal policy outcomes. The authors' key findings are that (1) strict budgetary restrictions lead to lower policy volatility (i.e., less aggressive use of discretion in conducting fiscal policy); (2) fiscal restrictions reduce the responsiveness of fiscal policy to output shocks. These two results should have opposite effects on output volatility. While less discretion should reduce volatility, less responsiveness of fiscal policy might amplify business cycles. They provide empirical support for the first effect: restrictions, by reducing discretion in fiscal policy, can reduce macroeconomic volatility.

**KOGUT Bruce and Charles Ragin**

**Exploring Complexity when Diversity is Limited: Institutional Complementarity in Theories of Rule of Law and National Systems Revisited.** *European Management Review*. Vol. 3, Issue 1. Pp. 44-59. February 2006.

Categories reflect particular theories about the world in the form of causal and performative claims. Unlike attributes that are the mainstay of statistical analysis, these discrete entities consist of the contradiction of being easy to understand and yet hard to analyze. An important obstacle to the exploration of causal claims about categories (e.g., nations) is the limited diversity of observed cases. We propose the use of methodologies that take greater exploratory account of causal complexity and that respects the importance of case narratives for the explicit decisions made to arrive at theoretical claims. One such methodology is qualitative comparative analysis developed by Charles Ragin. This method is applied to data provided by two independent lines of study (i.e., rule of law and governance and varieties of capitalism) to show how the identification, and adoption, of prototypes is complex. Through the use of logic (e.g., De Morgan's law) and reductive inferences, we explore the space of observed and unobserved configurations, showing how the identification of institutional configurations relies upon logical assumptions that are rarely made explicit. The analysis rejects the hypothesis of rule of law and financial development and qualifies the institutional prototypes of corporation and market as useful descriptions of the varieties of capitalism.

**KOSOWSKI Robert, N. Y. NAIK and M. TEO**

**Does Money grow on Hedge Funds? A Bayesian and Bootstrap Analysis.** *Journal of Financial Economics*. Forthcoming 2006.

Using a robust bootstrap procedure, we find that top hedge fund performance cannot be explained by luck, and that hedge fund performance persists at annual horizons. Moreover, we show that Bayesian measures, which help overcome the short-sample problem inherent in hedge fund returns, lead to superior performance predictability.

Relative to sorting on OLS alphas, sorting on Bayesian alphas yields a 5.5 percent per year increase in the alpha of the spread between the top and bottom hedge fund deciles. Our results are robust, and relevant to investors, as they are neither confined to small funds, nor driven by incubation bias, backfill bias or serial correlation.

**POPESCU Ioana and Yaozhong WU**

**Dynamic Pricing Strategies with Reference Effects.** *Operations Research*. Forthcoming.

We consider the dynamic pricing problem of a monopolistic firm in a market with repeated interactions, where demand is sensitive to the firm's pricing history. Consumers have memory and are prone to human decision making biases and cognitive limitations. As the firm manipulates prices, consumers form a reference price that adjusts as an anchoring standard based on price perceptions. Purchase decisions are made by assessing prices as discounts or surcharges relative to the reference price, in the spirit of prospect theory.

We prove that optimal pricing policies induce a perception of monotonic prices, whereby consumers always perceive a discount, or surcharge, relative to their expectations. The effect is that of a skimming or penetration strategy. In the long term, the firm's optimal pricing path is eventually monotonic. We identify conditions where this is also true at the introductory stage. If consumers are loss averse, we show that optimal prices converge to a constant steady state price, characterized by a simple implicit equation; in other words, the optimal policy cycles. The range of steady state price is unique for loss neutral buyers, and decreases with the strength of the reference effect, and with customer's memory, all else equal. Offering lower prices to frequent customers may be suboptimal, however, if they are less sensitive to price changes than occasional buyers.

If managers ignore such long-term implications of their pricing strategy, the model indicates that they will systematically price too low and lose revenue. Our results hold under very general reference dependent demand models.

**POPESCU Ioana**

**Robust Mean-Covariance Solutions for Stochastic Optimization.** *Operations Research*. Forthcoming 2006.

Also INSEAD Working Paper N° 2004/63/TM

We provide a method for deriving robust solutions to certain stochastic optimization problems, based on mean-covariance information about the distributions underlying the uncertain vector of returns. We prove that for a general class of objective functions, the robust solutions amount to solving a certain deterministic parametric quadratic program.

We first prove a general projections property for multivariate distributions with given means and covariances, which reduces our problem to optimizing a univariate mean-variance (robust objective). This allows us to use known univariate results in the multidimensional settings, and to add new results in this direction. In particular, we characterize a general class of objective functions (so called one or two-point support functions), for which the robust objective is reduced to a deterministic optimization problem in one variable. Finally, we adapt a result from Geoffrion (1966) to reduce the main problem to a parametric quadratic program.

In particular, our results are true for increasing concave utilities with convex or concave-convex derivatives. Closed form solutions are obtained for special discontinuous criteria, motivated by bonus and commission based incentive schemes for portfolio management.

We also investigate a multi-product pricing application, which motivates extensions of our results for the case of non-negative and decision dependent returns.

**VAN ZANDT Timothy and Xavier VIVES**

**Monotone Equilibria in Bayesian Games of Strategic Complementarities.** *Journal of Economic Theory*. Forthcoming.

For Bayesian games of strategic complementarities, we provide constructive proof of the existence of a greatest and a least Bayesian Nash equilibrium, each one in strategies that are monotone in type. Our main assumptions, besides strategic complementarities, are that each player's payoff

displays increasing differences in own action and the profile of types and that each player's interim beliefs are increasing in type with respect to first-order stochastic dominance (e.g., types are affiliated). The result holds for general action and type spaces (single-, multi-, or infinite-dimensional; continuous or discrete), and no prior is assumed. We also provide the following comparative statics result: the greatest and least equilibria are higher if there is a first-order stochastic dominant shift in the interim beliefs. We apply this result to strategic information revelation in games of voluntary disclosure.

**VOSGERAU Joachim, Klaus WERTENBROCH and Ziv CARMON**

**Indeterminacy and Live Television.** *Journal of Consumer Research*. Vol. 32. Forthcoming March 2006.

Also INSEAD Working Paper N° 2005/53/MKT

Why would consumers prefer live television, even when tape-delayed broadcasts provide the same sensory experience? The authors propose that indeterminacy is a key reason. Indeterminate consumption experiences (such as watching sports competitions live on television) unfold in ways that are not decided *ex ante*. This makes them more exciting than, and preferred to, equivalent determinate experiences (such as watching recorded broadcasts of the same competitions) that can only unfold the way the featured events were decided before they are broadcast. The authors offer empirical evidence for this proposition – independently of other differences between live and taped broadcasts, the indeterminacy of events made watching them live more exciting and correspondingly preferable. They conclude by discussing implications of the indeterminacy concept for consumer research.

**WANSINK Brian and Pierre CHANDON**

**Can “Low Fat” Nutrition Labels Lead to Obesity?** *Journal of Marketing Research*. Forthcoming, November 2006.

Also INSEAD Working Paper N° 2005/73/MKT

How do the nutrition claims on packaged goods influence how much a person eats? In an era of increasing obesity and increasing threats of legislation, regulation, and boycotts, this question is a concern both to responsible packaged goods companies and to regulatory agencies. To address this question, the authors develop and test a framework that shows how relative nutrition claims (such as “low-fat”) can increase food intake by increasing perceptions of appropriate serving size and decrease anticipation of consumption guilt. Three studies show that relative nutrition claims can lead all consumers to overeat, but this becomes more exaggerated for overweight consumers than for those of normal weight. Further results show that providing objective serving size information eliminates the overeating that is encouraged by low-fat nutrition claims, but only among normal weight consumers. With consumer welfare and corporate profitability in mind, win-win labeling insights are suggested for manufacturers and public policy officials.

**WEBBER Douglas**

**A Consolidated Patrimonial Democracy? Democratization in Post-Suharto Indonesia.** *Democratization*. Forthcoming Spring 2006.

In fewer than eight years, Indonesia, the world's most populous majority Muslim country, has made a remarkable transition from an authoritarian to a democratic political system. Against heavy odds, and despite bleak prognoses that this process and the country itself would collapse, Indonesia has developed many attributes of a consolidated democracy. As indicated by pervasive and endemic corruption, what has emerged in Indonesia, however, is a patrimonial democracy in which the rule of law is weak and the government's effective capacity to govern is limited. Although patrimonialism has deep roots in Indonesian political history, there are, however, growing signs that electoral competition, in particular, will ‘improve’ Indonesian democracy and push it in a more liberal direction. A new and rare Muslim democratic star may thus be rising in the Far East.

**WERMERS Russ, Robert KOSOWSKI, Allan G. TIMMERMANN and Halbert L. WHITE, JR.**  
**Can Mutual Fund ‘Stars’ Really Pick Stocks? New Evidence from a Bootstrap Analysis.**  
*Journal of Finance*. Forthcoming 2006.

We apply a new bootstrap statistical technique to examine the performance of the U.S. open-end, domestic-equity mutual fund industry over the period 1975 to 2002. Specifically, we bootstrap the joint distribution of performance measures (alphas) across all funds to determine whether managers of high-alpha funds are simply the luckiest in a large field of managers, or whether they possess genuine stock-picking skills. This bootstrap approach is necessary because the cross-section of mutual fund alphas has a complex, non-normal distribution – due to heterogeneous risk-taking by funds as well as non-normalities in individual fund alpha distributions. Our bootstrap approach reveals findings that differ from those produced by many past studies. Specifically, we find that a sizable minority of managers really do pick stocks well enough to more than cover their costs. Moreover, our bootstrap indicates that the superior alphas of these managers persist.

## Chapters in books

**AYRES Robert**

**Environmental Statistics: Draft Guidelines for Statistics on Material/Energy Balances.** *Green Accounting*. P. Bartelmus and E. K. Seifert (eds.). Ashgate. 2003.

Abstract not available.

**AYRES Robert**

**Is the US Economy Dematerializing: Main Indicators and Drivers.** *The Economics of Industrial Ecology: Methods and Applications*. M. Janssen and J. van den Bergh (eds.). MIT Press (2004).

Abstract not available.

**AYRES Robert**

**Thermodynamics and Economics, Overview.** *Encyclopedia of Energy*. Vol. 2. C. Cleveland (ed.). Elsevier. 2004.

Abstract not available.

**AYRES Robert and A. MASSINI**

**Exergy: Reference States and Balance Conditions.** *Vol. 2*. C. Cleveland (ed.) Elsevier. 2004.

Abstract not available.

**AYRES Robert and B. WARR**

**Economic Growth Models and the Role of Physical Resources.** *Unveiling Wealth: On Money, Quality of Life and Sustainability*. P. Bartelmus (ed.). Kluwer Academic Publishers. 2002.

Abstract not available.

**COLTMAN Tim, Timothy DEVINNEY and David MIDGLEY**

**Strategy Content and Process in the Context of E-Business Performance.** *Strategy Process, Advances in Strategic Management*. Yves Doz, Gabriel Szulanski and Joe Porac (eds.). Vol. 22. Pp. 349-386. JAI Press. 2005.

Also INSEAD Working Paper N° 2003/23/MKT

Abstract not available.

**FOTTLER M., S. J O'CONNOR, Mattia GILMARTIN and Thomas D'AUNNO**

**Motivating People.** *Health Care Management, Organization Design and Behavior*. S. M. Shortell and A. D. Kaluzny (eds.). New York: Thomson Delmar Learning. 5<sup>th</sup> edition. 2005.

Abstract not available.

**HUY Quy**

**An Emotion-based View of Strategic Renewal. Strategy Process, Advances in Strategic Management.** Yves Doz, Gabriel Szulanski and Joe Porac (eds.). Vol. 22. Pp. 3-38. JAI Press. 2005.

This paper challenges the dominantly pessimistic view of emotion held by many strategy scholars, and elaborates on the various ways in which emotion can help organizations achieve renewal and growth. The author discusses how appropriate emotion management can increase the ability of organizations to realize continuous or radical change to exploit the shifting conditions of their environments. This ability is rooted in developing emotion-based dynamic capabilities that facilitate organizational innovation and change. These emotion-based dynamic capabilities express or arouse distinct emotional states such as authenticity, sympathy, hope, fun, and attachment to achieve specific organizational goals important to strategic renewal, such as receptivity to change, the sharing of knowledge, collective action, creativity, and retention of key personnel.

**MAAK Thomas and Nicola PLESS**

**Responsible Leadership: A Relational Approach.** *Responsible Leadership.* T. Maak and N. Pless (eds.). Routledge. 2006.

Thomas Maak and Nicola Pless pick up on the importance of relationships and lay out a relational approach towards responsible leadership in business. They do so first by looking at some of today's key challenges for leaders and discuss a diversity challenge, an ethics challenge, as well as a trust, values and stakeholder challenge. Faced with these challenges, leadership is a demanding and complex task as leaders have to balance multiple, and thus conflicting, values in a creative and ethically sound way. The authors define responsible leadership as the art of building and sustaining morally sound relationships with all relevant stakeholders of an organization. They then discuss the concept of the leader as a moral person, underscoring that character and virtue are an important element but that a leader also needs ethical intelligence, by which they mean moral awareness, reflection skills, critical thinking and moral imagination. In the last part of the chapter, they discuss the roles and responsibilities of a responsible leader and propose that he or she is, at times, servant to others, steward and therefore custodian of values and resources, architect of sound processes and shared systems of meaning, responsible change agent, coach to nurture and support others and, finally, storyteller who uses the means of storytelling to lead responsibly.

**MAXWELL Katrina**

**What You Need to Know About Statistics.** *Web Engineering.* E. Mendes and N. Mosley (eds.). Springer. Pp. 365-408. 2006.

How do you measure the value of data? Not by the amount you have, but by what you can learn from it. Statistics provide a way to extract valuable information from your data. It is a science concerned with the collection, classification, and interpretation of data according to well-defined procedures. For a manager, however, statistics are simply one of many diverse techniques that may improve decision-making. The purpose of this chapter is to develop a deeper understanding of the statistical methods I use to analyze software project data. Notice that I use the word "deeper", not "complete". I don't believe a software manager needs a complete understanding of statistics. We'll leave that to the statisticians. I do see a need, however, to help software managers extract what they need to know from everything there is to know about statistics.

**PLESS Nicola and R. SCHNEIDER**

**Towards Developing Responsible Global Leaders: The Ulysses Experience.** *Responsible Leadership*. T. Maak and N. Pless (eds.). Routledge. 2006.

A programme that links cross-sector collaboration and leadership development is the innovative Ulysses programme at PricewaterhouseCoopers. In their chapter, Nicola Pless and Ralf Schneider describe how the programme provides an experiential learning frame for developing future global leaders at PwC through participation in cross-sector aid projects.

The assumption is that through this learning intervention, firstly, an awareness and understanding of the responsibilities of business and leaders for the pressing problems in the world is raised; secondly, deeply rooted human values (like equality, care for other human beings, recognition, cooperation) are activated; thirdly, capabilities to build sustainable relationships are enhanced; and last but not least, motivation to initiate further social change inside and outside the organization is triggered. One of today's key challenges of talent development is to prepare future leaders for the social, cultural, environmental and strategic challenges of business in an uncertain and complex environment and to develop executives who lead business responsibly and sustainably in a global stakeholder society. Pless and Schneider present PwC's approach towards developing responsible global leaders by outlining the organizational context and the leadership challenges that call for a development programme like Ulysses. They then present the programme itself, its learning philosophy, objectives, phases and the developmental methods used. Finally, they discuss some of the success factors for developing future leaders through aid projects in cross-sector partnerships.

**ZAJAC E. J., Thomas D'AUNNO and Lawton R. BURNS**

**Managing Strategic Alliances.** *Health Care Management, Organization Design and Behavior*. S. M. Shortell and A. D. Kaluzny (eds.). New York: Thomson Delmar Learning. 5<sup>th</sup> edition. 2005.

Abstract not available.

## Working papers

**BARBULESCU Roxana and John WEEKS**  
**Identity Work in ENG**  
**Coherence and Conflict in a Time of Change**  
INSEAD N° 2006/06/OB

To explain conflicts over organizational identity, we need to understand why members of organizations find it useful to make claims about identity. Seldom in organizations do people debate questions of identity for purely philosophical reasons. Previous work has argued that the issue of identity is profound and consequential, and so difficult that organizations prefer to avoid it under ordinary circumstances. If this is true, the absence of such debate leaves the question of identity most often unresolved at the organization level. This allows conflicting views of the organization's identity to persist at the individual and group level. It suggests that it may be at these lower levels, and over issues of more minor significance, that organizational identity gets worked out day-to-day. In a study of a large, state-owned, European engineering organization, we found that the identity of the organization was invoked often and that different people talked about identity in conflicting ways and put forward a variety of claims about it at different times for different reasons. We argue that this was the result of various types of identity work being used in different situations not only to influence decision making, but also day-to-day sense making, and even when introducing the organization to outsiders and newcomers. In this paper, we examine the patterns of identity work that we observed in the organization: the occasions that prompted it; the ends it was put to; and the structures of belief that supported it.

**BARTOLOME Fernando and WEEKS John**  
**A Better Way to Process Negative Feedback**  
INSEAD N° 2006/07/OB

Abstract not available.

**CHATAIN Olivier and ZEMSKY Peter**  
**The Horizontal Scope of the Firm: Organizational Tradeoffs versus Buyer-Supplier Relationships**  
INSEAD N° 2006/12/ST

Horizontal scope – the set of products and services offered – is an important dimension of firm strategy and a potentially significant source of competitive advantage. On the one hand, the ability to build close buyer-supplier relationships over multiple transactions can give an advantage to firms that offer a wide range of products and services and “one-stop-shopping”. On the other hand, the existence of organizational tradeoffs can give an advantage to firms that specialize in a narrower range of products or services. We develop a biform game that incorporates this tension and show how the use of three generic scope strategies – specialist, generalist and hybrid – depends on the benefits of close buyer-supplier relationships, the extent of organizational tradeoffs, setup costs, the homogeneity of buyer needs and the power of suppliers relative to buyers. We then use the model to study a variety of issues in supply chain management, including the gains to coordinating suppliers, the optimal level of buyer power, and the desirability of subsidizing suppliers. One of our objectives is to show how biform games, which introduce unstructured negotiations into game theoretic analysis, can be used to develop applied theory relevant to the strategy field.

**CHRISTEN Markus and Miklos SARVARY**  
**Competitive Pricing of Information: A Longitudinal Experiment**  
INSEAD N° 2006/11/MKT (Revised version of 2004/27/MKT)

Theoretical work on the pricing of information reveals that competition between independent information sellers can result in prices that are negatively related to the quality or reliability of the information. The theory argues that when information products are unreliable (low quality), independent products become complements and competition can increase prices. The goal of this study is to empirically test the theory's counterintuitive predictions with the help of an experimental market based on a business simulation. Information products are independent market forecasts, which are available from different competing information sellers and used by information buyers to make marketing decisions. Sellers set prices to maximize their profit and buyers decide from which seller or sellers to buy to maximize their own profit (via their marketing decisions). Buyers and sellers are assigned to one of two quality conditions: high-quality, or reliable information, and low-quality, or unreliable information. The reliability of information products (forecasts) is exogenously set and must be inferred by both buyers and sellers from historical forecasts about another market. The results from this experimental market fully support the theory. After some experimentation, prices converge to levels that are strikingly different between the two quality conditions: prices are significantly higher when the information sold is unreliable (low quality). Moreover, with few competing sellers of low-quality information, prices are higher than with a single seller or with a large number of competing sellers.

**ECHAMBADI Raj, Inigo ARRONIZ, Werner REINARTZ and Junsoo LEE.**  
**Empirical Generalizations From Brand Extension Research: How Sure Are We?**  
INSEAD N° 2006/08/MKT

Bottomley and Holden (2001) conducted a secondary analysis of Aaker and Keller's (1990) seminal brand extension study and seven other close replications, generated several empirical generalizations, and hence called for a revision of the extant understanding of brand extension evaluations. We re-examine Bottomley and Holden's conclusions. We prove analytically that the residual-centering approach used by them to alleviate collinearity problems is inappropriate, thereby rendering their generalizations suspect. We re-analyze the same data, and our new results clarify the understanding of how consumers indeed evaluate extensions. Specifically, we find that, although the simple effects of neither parent brand quality nor measures of fit affect evaluations of brand extensions, the interaction effects of parent brand quality with fit are important determinants of brand extension evaluations. We discuss the substantive implications of our findings and offer directions for future research.

**FAYARD Anne-Laure and WEEKS John**  
**Photocopiers and Water-coolers.**  
**The Affordances of Informal Interaction**  
INSEAD N° 2006/05/OB (Revised version of 2005/46/OB)

There has been increasing recognition of the importance of informal interactions in organizations, but practical attempts to control the level of informal interaction by design have been marked by unintended consequences, and research examining the effects of the physical environment on informal interaction has produced contradictory results. Drawing upon a qualitative study of informal interactions observed in photocopier rooms in three organizations, this paper builds on the work of ecological psychologist, James Gibson, to develop a theory of the *affordances* of informal interaction. The affordances of an environment are the possibilities for action called forth by it to a perceiving subject.

Research on affordances has typically focused on the physical affordances of individual behavior. We introduce the notion of social affordances and identify the social and physical environment to afford informal interactions. The theory of affordances provides a lens through which to reinterpret the conflicting results of previous studies and to re-examine the seemingly simple water-cooler around which the organization gathers.

**KATONA Zsolt and Miklos SARVARY**

**Network Formation and the Structure of the Commercial World Wide Web**

INSEAD N° 2006/04/MKT

We model the commercial World Wide Web (WWW) as a directed graph emerging as the equilibrium of a game in which utility maximizing Web sites (nodes) purchase in-links from one another. In a world where consumers 'surf' on the WWW, sites' revenues/profits originate from two sources: (i) the sales of content (products) to consumers, and (ii) the sales of links (traffic) to other sites. A key feature of our model is that we consider sites to be heterogeneous in terms of their "content", i.e., their inherent value to consumers. We find that the equilibrium structure of such a graph matches the general empirical features of the WWW, especially with respect to the similarity of degree distributions between in- and out-links. In equilibrium, links tend to originate from low content sites toward high content ones. The larger the market size, the more sites tend to specialize in terms of their revenue model: either selling content or selling traffic. In an extension, we also consider network formation in the presence of search engines and find that the higher the proportion of people using these, the more sites have an incentive to specialize in certain "content areas". Finally, we explore a dynamic network formation process and show that it converges to the predicted equilibrium as additional sites join the network.

**MIDGLEY David, Robert MARKS and Dinesh KUNCHAMWAR**

**Development and Validation of a Multi-agent Simulation of Consumers, Retailers and Manufacturers**

INSEAD N° 2006/03/MKT (Revised Version of 2005/78/MKT)

We are working on an important problem in business, namely understanding the complex interactions between consumers, retailers and manufacturers. We have developed an agent-based model based on both the academic literature and our understanding of the marketing of frequently purchased products. This model has been embedded in a genetic algorithm optimizer for purposes of verification and validation. However, the results we will present from the verification stage, together with considerations of the likely data available for validation, suggest that a different approach may be needed for building, verifying and validating such models. This approach will emphasize minimalism and a clear focus on validation from the start of model development.

**PACHECO-DE-ALMEIDA Goncalo and ZEMSKY Peter**

**The Timing of Resource Development and Sustainable Competitive Advantage**

INSEAD N° 2006/03/ST

We deepen and extend resource-level theorizing about sustainable competitive advantage by developing a formal model of resource development in competitive markets. Our model incorporates three important barriers to imitation: time compression diseconomies, causal ambiguity and the magnitude of fixed investments. Time compression diseconomies are derived from a micro-model of resource development with diminishing returns to effort. We characterize two dimensions of sustainability: whether a resource is imitable and how long imitation takes.

We identify conditions under which competitive advantage does not lead to superior performance and show that an imitator can sometimes benefit from increases in causal ambiguity.

Despite recent criticisms, we reaffirm the usefulness of a resource-level of analysis, especially when the focus is on resources developed through internal projects with identifiable stopping times.

**SANTOS Filipe and Kathleen EISENHARDT**

**Constructing Markets and Organizing Boundaries: Entrepreneurial Action in Nascent Fields**

INSEAD N° 2006/01/EFE

This paper examines how entrepreneurs manage their organizational boundaries in nascent markets. Given the limits of extant theory, we conducted an inductive theory-building study of five firms over a multi-year period. The result is a framework that describes how entrepreneurs co-construct the boundaries of their firm and market using three key processes. First, entrepreneurs attempt to *claim* a nascent market by making the identity of the firm and the market synonymous. They accomplish this by using leadership signals, disseminating stories and adopting templates that balance familiarity and novelty. Second, entrepreneurs attempt to *demarcate* the market by creating a clear perimeter for the firm and shaping the surrounding industry structure. They accomplish this by co-opting established firms through alliances that are often very costly to the entrepreneurial firm. Third, entrepreneurs attempt to *control* the market by overlapping the footprint of the firm with the changing scope of the market. They accomplish this by acquiring entrepreneurial rivals who could become stepping-stones for established firms to open new market segments or possess threatening resources. Overall, the focal firms were varyingly successful in executing these three processes. This, in turn, influenced significant outcomes such as market creation, level of competition, and market share. Taken together, these findings offer a *dynamic* and *strategic* view of boundaries that is shaped by an underlying logic of power. Overall, this paper contributes to reinvigorating the study of inter-organizational power by exploring the processes through which low power actors, such as entrepreneurs, attempt to construct new markets.

**SINGH Jasjit**

**Distributed R&D, Cross-Regional Ties and Quality of Innovative Output**

INSEAD N° 2006/10/ST

This paper studies the impact of geographic dispersion of a firm's R&D activities on the quality of its innovative output. Theoretically, the sign of this relationship is ambiguous since gains from access to expertise and resources from different regions could be offset by costs of coordination and difficulty of knowledge integration across distant units. Empirically, we find no evidence that distributed R&D in itself improves the value of a firm's innovations. In fact, if anything, innovations from firms with distributed R&D have a slightly lower average value than those from firms with more centralized R&D. However, when geographic dispersion of R&D is also accompanied by a sufficient extent of cross-regional ties across researchers from different R&D units, we find that the above effect gets reversed and an improvement in innovation does occur. More generally, our findings provide new evidence regarding the importance of intra-firm networks for the performance of multi-unit firms.

**SORENSEN Olav and Jasjit SINGH**

**Science, Social Networks and Spillovers**

INSEAD N° 2006/09/ST

Although prior empirical research has established that science appears to stimulate the widespread diffusion of knowledge, the exact mechanism through which science catalyzes knowledge flow remains somewhat ambiguous. This paper considers whether the observed knowledge diffusion associated with science-based innovation stems from the norm of openness and incentives for publication, or whether scientists maintain more dispersed social networks that facilitate the dissemination of tacit knowledge. Our analysis supports the former mechanism:

We use patent citation patterns to track knowledge flows, and find that science-based innovations diffuse more widely even after controlling for the underlying social networks of researchers as measured using data on prior collaborations. We also find that publication and social networks act as substitutes in the diffusion of knowledge.

**WHITE Steven and Howard DAVIES**

**Cognitive Factors and the Dynamics of Strategic Fit: Linking Choice and Incentives to Resource Allocation Decisions**

INSEAD N° 2006/02/ABCM

Although research in the dynamics of strategic fit has gone far to combine environmental determinism and agency into a coherent framework for understanding strategic behavior, it has largely ignored the cognitive factors that Child (1997) identified as equally important in determining which strategic choices are made. This study uses data on 959 Chinese manufacturing firms to show that a cognitive factor – technological ambition – links environmental and firm-level factors with strategic action, namely, the allocation of R&D personnel. Not only do we identify specific environmental and firm-level factors that drive ambition and, in turn, technology resource allocation decisions, but we also show the importance of incorporating such cognitive elements explicitly into models describing the dynamics of strategic fit.

## Case studies

**CHICK Stephen****Assessing Waits in a Health Care Service Delivery Process**

This case allows course participants to use a graphical simulation tool to explore several key factors that lead to customer response delays in service systems. A high-level discussion can then ensue on process flow management, including tools like segmentation, process standardization and scheduling, and resource utilization planning. The case requires the ProModel simulation software tool (not included, to be purchased separately), and computer simulation input files (available free from the author's website: <http://faculty.insead.edu/chick/chick-teaching.htm>).

**Pedagogical Objectives:**

This case allows course participants to use a graphical simulation tool to explore several key factors that lead to customer response delays in service systems. The case visually demonstrates how resource utilization, variability in process times, and resource pooling affect customer response times. A high-level discussion can then ensue on process flow management, including tools like segmentation, process standardization and scheduling, and resource utilization planning.

**Copyright:** 2006 INSEAD  
**Also available:** Teaching Note

**HUNTER Mark, Henri-Claude de BETTIGNIES and Marc LE MENESTREL****Who Won the Danone Boycott? (A, B & C)**

A confidential plan for restructuring Danone's biscuit division is leaked to the press, and triggers labor unrest followed by a consumer boycott. Danone seeks a strategy to surmount the crisis, but while initially successful, the strategy ultimately exacerbates the situation.

**Pedagogical Objectives:**

Participants are asked to consider how crisis strategies may have long-term as well as short-term effects, and to consider alternative strategies for dealing with social conflicts. The comparative costs and risks of these strategies, rather than a definitive choice, is the object of the discussion.

**Copyright:** 2006 INSEAD

**ORSATO Renato and Andrea ÖSTÖRM****Eco-Branding: The Case of Änglamark**

This case describes the development of an ecological brand in a large Swedish supermarket chain. The experience of Änglamark has been unique and successful, but fierce price rivalry, change in consumer preferences and strategic alliances among Scandinavian cooperatives are jeopardizing the future of the brand.

**Pedagogical Objectives:**

The case enables teachers to explore:

- (i) the alignment of general, marketing and environmental strategies;
- (ii) the conditions in which ecological differentiation may generate competitive advantage;
- (iii) the subtle differences between traditional and ecological branding strategies;
- (iv) the evolution of consumer behavior toward eco-oriented products.

**Copyright:** 2006 INSEAD

**PICH Michael, Ludo VAN DER HEYDEN and Stephen CHICK**  
**Process Control at Compaq Computer Corp. (A & B)**

Compaq Computer Corp., like many manufacturers, faces operational choices that strongly influence the cost of capital engaged in inventory, customer response time, and potential product obsolescence. This case describes some key operations strategy choices regarding two types of inventory: operation inventory (e.g., flow) and tactical inventory (e.g., finished goods). Tradeoffs in inventory management and customer response time are explored in the context of a firm that is changing from a push manufacturing to a customer-oriented pull system.

Optional computer simulations (B case) visually display the dynamics of push and pull systems, kanban squares, and their effect on inventory requirements and customer response times. The simulations require the ProModel simulation software tool (not included, to be purchased separately) and computer simulation model files (available from the authors' website: <http://faculty.insead.edu/chick/chick-teaching.htm>).

**Pedagogical Objectives:**

The pedagogical objectives of the A case are to convey the importance of manufacturing strategies and inventory management in the value creation processes of a business. A simplified manufacturing model allows the ideas of operational (e.g., flow) inventory and tactical (e.g., finished goods) inventory to be explored. Build-to-forecast and build-to-order approaches can be described, and the challenges of switching from a push system to a pull manufacturing system can be explored. The case describes tradeoffs in production decisions that relate inventory assets and customer response times.

The B case is an optional add-on that describes computer simulation models that visually demonstrate the ideas of push and pull systems, kanban squares, blocking and starving of production in kanban systems, and the effects of manufacturing choices on customer response times.

**Copyright:** 2006 INSEAD  
**Also available:** Teaching Note

**REINARTZ Werner****From Category Management to Customer Relationship Management – The Case of Henkel**  
**Case Writer:** Cristiana Pipponzi

Manufacturers of fast moving consumer goods (FMCGs) are struggling to identify how CRM practices should be applied to their industry. What makes their situation different from other firms and more difficult to manage is the fact that this industry is characterized by a detachment from the end consumer (retailers are intermediaries), and average per consumer expense in the individual categories is relatively low.

However, manufacturers sense that existing category management practices are, for the most part, exhausted in terms of providing competitive advantage. Therefore, manufacturers like Henkel explore how to make the shift from category management to CRM, and more specifically how to make CRM work to their advantage.

**Pedagogical Objectives:**

The goal of the case study is to explore substantive questions such as:

- how a manufacturer of FMCGs should approach CRM
- how to arrive at a customer segmentation that enables the best targeting strategy
- the role of individual level or segment level communication
- investigating the economics of the proposed approach
- exploring whether a partnering strategy with the retailer is critical or not

**Copyright:** 2006 INSEAD

**REINARTZ Werner****ISS- Driving Profits through Customer Satisfaction****Case Writer:** Christian LELONG

In the domain of customer management, one can observe that in recent years, managers have, relatively speaking, shifted their attention away from satisfaction and loyalty issues and directed their attention more and more towards customer profitability issues. The objective of this case is to investigate the chain from service quality, customer satisfaction and customer retention, to revenues and profits – the so-called Satisfaction-Profit Chain. In particular, the goal is to outline the critical managerial issues when trying to implement the chain, i.e., measuring and managing the various stages. The situation is illustrated with the example of ISS, a large Danish B-to-B services firm.

**Pedagogical Objectives:**

The case aims to illustrate the mechanics of the Satisfaction-Profit Chain. More specifically, how the individual components of the chain are measured, how these components are linked in practice and how the entire chain can be managed.

**Copyright:** 2006 INSEAD**STORY Jonathan and Patrice LAMOTHE****How Do Ideas Transform Institutions? The Reform of the French Pension System**

This case describes the partial transformation of the French social security system, and provides a basis for discussion of reform processes in complex organisations. The case raises questions about institutional lethargy, the sources of reform (are they demographic, economic, sociological, ideational?), and suggests conditions required to lock in reform.

**Pedagogical Objectives:**

The teaching objectives relate to the transformation and reform processes of a complex organisation. It is predicated on a simple model of a path dependent process, which is resilient to radical proposals, and focuses on the importance of the “battle of ideas” and the re-definition of the rules of the game, as well as of key participants in the reform process and their relative weightings.

**Copyright:** 2005 INSEAD**Also available:** Teaching Note**WALTER Ingo****Marsh and McLennan Companies**

This case deals with the problems facing MMC in three of its key business areas, which surfaced in quick succession in 2003 and 2004. Its focus is primarily on the reputation risks facing the firm, and how shareholder value can be destroyed when such risks materialize. In two of the three cases, the market capitalization losses dwarf the accounting losses attributable to fines, penalties, restitution, restructuring, etc., associated with the events.

**Pedagogical Objectives:**

Key teaching points relate to the sources and consequences of operational risk in the financial services sector. These include: Was the problem, in part, a product of rapid growth through acquisitions, which might have made it difficult to build a culture resistant to exploiting conflicts of interest? Was it related to the emergence of an aggressive winner-take-all culture at MMC, especially during the latter years? Was it a matter of established industry patterns of questionable conduct, where MMC was simply among the most aggressive players? Was it, in part, a product of the times, with prosecutors "running wild" in the post-Enron, Sarbanes-Oxley era?

**Copyright:** 2005 INSEAD

**Also available:** Teaching Note

**WHITE Steven**

**Huawei's Strategic Review (A): Sam Park**

**Huawei's Strategic Review (B): Zhang Min**

**Case Writers:** Sarah HARPER and Alexandre RICARDI

Founded in 1988 by Ren Zhengfei, Huawei has emerged as China's leading telecommunications equipment suppliers offering a product line and services similar to those of Cisco. Based in Shenzhen, and still private, Huawei has grown to sales of US\$3 billion and 22,000 employees. In addition to China's domestic telecoms, it is increasing its revenues from and share of foreign projects, such as in Thailand, Korea, Singapore, Hong Kong and Brazil. The difficulty that the firm faces, however, is that many of the management practices and strategies that enabled it to grow so rapidly and successfully may be ineffective or inappropriate as the nature of competition in China changes, or as Huawei tries to compete in foreign markets. Some of these include its R&D capabilities, service provision, decision-making process, client relationship practices, and culture. Other changes will be necessary if it decides to attract external capital to fund expanded R&D and international activities. What changes should it make, and how could you convince the founder and CEO that these are necessary?

**Pedagogical Objectives:**

This case represents a firm that must make fundamental changes in order to compete with increasingly strong domestic and foreign rivals in its traditional domestic market, as well as in global markets that it is targeting for growth. Students must identify what changes in resources and capabilities, formal systems and structure, and culture would be implied by placing different priorities on domestic versus foreign markets and, among foreign markets, developing and developed markets. Provided with information on the founder/CEO's personality and beliefs, they will also be forced to consider how they could influence him, and perhaps much of the firm, of 1) the need to change and 2) the nature of changes that should be made. (A) and (B) are presented from two different points of view: an outside consultant who is more conservative, and a top manager who is more optimistic and aggressive. Students may be asked to argue from one of these perspectives, with a third party (such as the professor) managing the discussion to develop a conclusion.

Unlike most cases of Chinese firms, this firm is doing very well, so there is no immediate and obvious need to change.

**Copyright:** 2006 INSEAD

## Seminars/Workshops

### Faculty seminar series

#### **Accounting and Control Research Seminar Series**

The following seminar took place within the Accounting and Control Research Seminar Series. For further details, please contact Isabelle Seyrig (Ext. 4-4496).

7 November 2005      Presentation by Wayne Landsman, Kenan-Flager Business School, entitled: *Fair Value Accounting for Financial Instruments: Some Implications for Bank Regulation*.

#### **Decision Sciences Research Seminar Series**

The following seminar took place within the Decision Science Research Seminar Series. For further details, please contact Melissa Wojciechowski (Ext. 4-9296).

27 January 2006      Presentation by Martijn Willemsen, Eindhoven University of Technology, entitled: *Process Tracing for Dummies – Solutions for design, analysis and presentation using Reference Dependence as a case*.

#### **Decision Sciences Research Seminar Series**

The following seminar took place within the Decision Sciences Seminar Series. For further details, please contact Melissa Wojciechowski (Ext. 4-9296).

16 February 2006      Presentation by Marcel Zeelznberg, Tilburg University, entitled: *Consequences of Regret Aversion in Lottery Play*.

2 March 2006      Presentation by Neil Bearden, INSEAD, entitled: *An Experimental Economics Approach to poker (or: Why I am an Academic)*.

#### **Economics Seminar Series**

The following seminar took place within the Economics Seminar Series. For further details, please contact Brigitte Pernet (Ext. 4-4212).

8 February 2006      Presentation by Emeric Henry, Stanford University, entitled: *Runner-Up Patents: Is Monopoly Inevitable?*

27 February 2006      Presentation by Kyle Hyndman, New York University, entitled: *Coalition Formation with Binding Agreements*.

### **Finance Seminar Series**

The following seminar took place within the Finance Seminar Series. For further details, please contact Laetitia Guyot (Ext. 4-4482).

24 February 2006      Presentation by Olivier Scaillet, HEC – University of Geneva, entitled: *False Discoveries in Mutual Fund Performance: Measuring Luck in Estimated Alphas*.

### **Joint Marketing and Technology and Operations Management Seminar Series**

The following seminar took place within the Joint Marketing and Technology and Operations Management Seminar Series. For further details, please contact Isabelle O'Carroll (Ext. 4-4003).

24 February 2006      Presentation by Eric Bradlow, Wharton Small Business Development Center, entitled: *Bayesian Estimation of Bid Sequences in Internet Auctions using a Generalized Record Breaking Model*.

### **Joint Strategy and Entrepreneurship and Family Enterprise Seminar Series**

The following seminar took place within the Strategy and Entrepreneurship and Family Enterprise Seminar Series. For further details, please contact Helen Varin (Ext. 4-4454).

6 February 2006      Presentation by Jeffrey Reuer, Kenan-Flagler Business School, University of North Carolina, entitled: *Initial Public Offerings and Organizational Governance: Evidence from Joint Ventures and Acquisitions*.

### **Joint Technology and Operations Management and Decision Sciences Seminar Series**

The following seminar took place within the Technology and Operations Management and Decision Sciences Seminar Series. For further details, please contact Isabelle O'Carroll (Ext. 4-4003).

10 February 2006      Presentation by Victor Araman, Stern School of Business, New York University, entitled: *Dynamic Pricing for Non-Perishable Products with Demand Learning*.

### **Marketing Research Seminar Series**

The following seminar took place within the Marketing Research Seminar Series. For further details, please contact Suzanne Sellier Di Sano (Ext. 4-4248).

27 January 2006      Presentation by Vithala R. Rao, The Johnson Graduate School of Management, Cornell University, entitled: *Methods for Eliciting Preferences for New Products with Massive Number of Attributes*.

3 February 2006      Presentation by Utpal (Paul) Dholakia, The Jesse H. Jones Graduate School of Management, Rice University, entitled: *Customer Self-Determination and Relational Marketing Outcomes: Findings from Field Studies*.

- 10 February 2006      Presentation by Ravi Dhar, Yale School of Management, entitled: *Choice in Sequence: Shopping Momentum and the Licensing Effect*.
- 17 February 2006      Presentation by Catherine Yeung, National University of Singapore, entitled: *Does Loving a Brand Mean Loving Its Products? The Role of Brand-Elicited Affect in Brand Extension Evaluations*.

### **Organisational Behaviour Seminar Series**

The following seminar took place within the Organisational Behaviour Seminar Series. For further details, please contact Marianne Gandolphe (Ext. 4-2629).

- 12 January 2006      Presentation by Marco Tortoriello, Carnegie Mellon University, entitled: *The Social Underpinnings of absorptive Capacity: External Knowledge, Social Networks, and Individual Innovativeness*.

For further details, please contact Sharmini Pathman (Ext. 5-5406).

- 17 February 2006      Presentation by Iain Cockburn, Boston University and NBER, entitled: *Patents and the Survival of Dot.com IPOs*.

For further details, please contact Alexandra Cappadoro (Ext. 4-4322).

- 8 March 2006      Presentation by Elizabeth Mannix, Johnson Graduate School of Management, Cornell University, entitled: *The Effects of Individual Influence on Team Process and Performance: Evidence from Field and Lab*.

### **Strategy Research Seminar Series**

The following seminar took place within the Strategy Research Seminar Series. For further details, please contact Helen Varin (Ext. 4-4454).

- 23 January 2006      Presentation by Michael G. Jacobides, London Business School, entitled: *How Profits, Production and Resource Payments Evolve over Time: Understanding the Dynamics of a Schumpeterian Wave*.

- 16 January 2006      Presentation by Jackson Nickerson, Washington University, entitled: *Envy, Comparison Costs, and the Economic Theory of the Firm*.

For more details, please contact Marianne Gandolphe (Ext. 4-2629).

- 30 January 2006      Presentation by Susan Perkins, New York University, entitled: *Does Prior Experience Really pay?: Institutional Environment Relatedness and Foreign Direct Investment Failure in the Brazilian Telecommunications Industry*.

**Technology and Operations Management Seminar Series**

The following seminar took place within the Technology and Operations Seminar Series. For further details, please contact Corinne Covalet (Ext. 4-4295).

- 3 February 2006      Presentation by Ravi Aron, Wharton School of the University of Pennsylvania, entitled: *Offshore Outsourcing of Services: A Model of the Extended Organizational Form and Survey Findings*.
- 27 January 2006      Presentation by Jiri Chod, Boston College, entitled: *The Value of Postponement: Market Drivers and Input Commonality*.

## Off-Campus Conference Attendances

**ANDERSON Erin:** *Enhancing Sales Force Productivity (MSI)* (21-23 April 2006: Missouri, USA). Paper presented: “**Specificities of Key Account Executive Compensation: Insights from European Policies**”.

**BLACK Stewart:** *BYU-INSEAD Leadership Conference* (2-4 March 2006: Utah, USA).

**Specific Role:** Conference Organizer

**HAU Harald:** *Programme for Adam Smith Asset Pricing Conference* (17 March 2006: London, UK). Paper Presented: “**Wealth Transfers and Portfolio Constraints**”.

**Specific Role:** Discussant

**HIBON Michèle:** *26<sup>th</sup> International Symposium on Forecasting* (11-14 June 2006: Santander, Spain). Paper Presented: “**Forecasting Competition on Transportation Data**”.

**Specific Role:** Discussant

**HILLEGEIST Stephen:** *6<sup>th</sup> Annual Accounting Utah Winter Conference* (23-26 February 2006: Utah, USA).

**Specific Role:** Discussant

**KETS DE VRIES Manfred:** *ISPSO Symposium* (19-25 June 2006: Amsterdam, Holland).

**Specific Role:** Member & Presenter of Keynote Speech

**KETS DE VRIES Manfred:** *World Economic Forum* (24-29 January 2006: Davos, Switzerland).

**Specific Role:** Facilitator in 3 Sessions

**LEPINEUX François:** *Acting Against Corruption, First Conference of Transparency International France* (24 February 2006: Paris, France).

**Specific Role:** Moderator of a Roundtable

**LEPINEUX François:** *European Higher Education for Sustainable Development – How Do We Make It Happen?* (21 February 2006: EU, Belgium). Paper presented: “**Integrating CSR into Management Education in France: the Role of ADERSE**”.

**LOCH Christoph:** *17<sup>th</sup> Annual Conference of POMS* (28 April – 1 May 2006: Boston, USA). Paper Presented: “**Product Positioning in a Two Dimensional Market Space**”

**Specific Role:** Speaker

**REINARTZ Werner:** *AMA Winter Marketing Educators’ Conference 2006* (17-20 February 2006: Florida, USA).

**Specific Role:** Discussant

**REINARTZ Werner:** *INFORMS Marketing Science Conference 2006* (8-10 June 2006: Pittsburg, USA). Paper presented: “**Investigating Cross-Buying and Customer Loyalty**”.

**SOBERMAN David:** *INFORMS Marketing Science Conference 2006* (8-10 June 2006: Pittsburgh, USA). Paper presented: “**Behavior Based Discrimination: Is it a Winning a Play and if so when?**”

**SOSA Manuel:** *17<sup>th</sup> Annual Conference of POMS “OM in the New World Uncertainties”* (28 April – 1 May 2006: Boston, USA). Paper presented: “**Radical and Incremental Software Development: A Sociometric Investigation**”.

**VAN DER HEYDEN Ludo:** *Utah Winter Operations Management Conference* (23-25 February 2006: Salt Lake City, USA). Paper Presented: “**Napoleon: A Case Study on the Importance of Fair Process for Decision Making and Operational Execution**”.

**Specific Role:** Closing Speaker

**VAN WASSENHOVE Luk:** *EURO Thirtieth Anniversary* (28 January 2005: Brussels). Paper presented: “**OR: A Science for a Better World? Supply Chain Management from Business to Humanitarian Applications**”.

**VAN WASSENHOVE Luk:** *EURO Thirtieth Anniversary* (15 February 2005: London). Paper Presented: “**OR: A Science for a Better World? Supply Chain Management from Business to Humanitarian Applications**”.

**VAN WASSENHOVE Luk:** *EURO Thirtieth Anniversary* (18 November 2005: Paris). Paper presented: “**OR: A Science for a Better World? Supply Chain Management from Business to Humanitarian Applications**”.

**YÜCESAN Enver:** *2006 WSEAS International Conference* (12-14 March 2006: Prague, Czech Republic). Paper presented: “**Development and Evaluation of Parallel and Distributed Simulation with Web Services**”.

# Projects managed by R & D

## Research

### **ANDERSON Erin**

#### **Strategic Implications of Darwinian Economics for Choice of Organizational Structure and Firm Performance**

Franchising is a channel of distribution typically used for services and products that need a high level of value added by the channel itself. A franchisor can choose among various feasible governance structures, including self-unit franchising (the traditional one franchisee, one outlet), area development (one franchisee agrees to develop a network of outlets in a region), sub franchising (one franchisee acts like a franchisor to another franchisee), and multi-unit franchising (one franchisee owns and operates multiple outlets). All these structures have very different governance properties: they offer a franchisee different incentives and motivations to practice moral hazard. Very little research examines which structure should be the most efficient for a franchisor to follow, and under what circumstances. Darwinian economics implies that competitive market forces tend to weed out inefficient structures, and, hence, prevailing structures are efficient if markets are contested. On this basis, I will model the financial performance of firms as an indication of the efficiency of their structure. I will first derive a descriptive statistical model, or an “industry model”, to predict which structure would be efficient for a firm to follow as a function of its environment. Then, I will investigate whether the firms deviating from the structure recommended by the industry model perform better or worse than firms deviating from prevailing practice. I plan to use comprehensive, valid, reliable organizational and financial performance data from the US franchising sector.

### **GUILLOT Didier and Paul MARTORANA**

#### **Organization and Network Culture**

This project looks at the condition for the emergence and maintenance of inter-organizational trust and argues for the critical role of “Network Culture”. Based on psychological theories of social categorization and social identification and Organizational Behavior theories of organizational culture, the main perspective of the project is that the promotion of shared norms, values and beliefs across firm boundaries is an essential condition for the creation of inter-organizational trust.

This project is composed of two parts: a) a theoretical piece about the nature of “Network Culture”, 2) an empirical paper about the impact of “Network Culture” on the emergence of trust across firm boundaries, organizational performance and individual behavior.

### **HANSON Margaret**

#### **Public Private Partnerships in a Context of State Failure**

The growth of public private partnerships (PPPs) over the past decade has brought together ‘for-profit’ and ‘not-for-profit’ actors, traditionally cast as adversaries. This new growth reflects increased collaboration between business and non-governmental organizations (NGOs), in particular, and reflects the growing importance of NGOs in shaping both the context of market competition, and the public sector, traditionally dominated by formal governmental actors.

The research agenda outlined in this proposal focuses on PPPs formed in the context of state failure – situations in which PPPs have been formed to provide ‘public goods’ (i.e., water, education, health care) that, due to the failures of governmental and/or market mechanisms, are insufficiently accessible in a given setting.

The research examines the factors that affect the success of such PPPs, focusing especially on the challenges that arise from managing varying multi-stakeholder processes, lines of accountability and transparency, and competing policy agendas. It explores the roles of NGOs as important (i.e., helping to define CSR agendas and public agendas), but imperfect representatives of the public interest. This project aims for a better understanding of how corporations manage their (successful) participation in PPPs, in this context.

**SADOULET Loïc and Nicolas SAHUGUET**  
**The Effect of Commissions in Experimental Auctions**

The goal of this research is to develop an experimental procedure to test in the laboratory the effect of commissions in auctions. We want to examine the behavior of buyers and sellers in experimental auctions where buyers' fees and sellers' commissions vary, and we analyze the incidence of the commissions under various scenarios.

The experiment is motivated by the recent US\$512 million settlement in the Christie's and Sotheby's class-action suit for price-fixing. The settlement is to be distributed to buyers and sellers who have completed a transaction according to the estimated increases in buyers' and sellers' commissions resulting from the collusion between the two auction houses. Yet clearly, the buyers and sellers should integrate these commissions in their bidding strategies, and in their reserve prices. The real losers from price-fixing should thus be sellers who extract a lower surplus from the transaction, and unsuccessful buyers and sellers who could not reach a beneficial trade due to the wedge introduced by the higher commissions. Price fixing should, of course, not be allowed, but we want to analyze, in this research, how to compensate those who suffered from it.

The results of these experiments will be useful in understanding better the impact of commissions on buyers' and sellers' behavior. In particular, we believe that purely theoretical arguments might put too much emphasis on rationality of economic factors, and that our analysis might help in deciding how to compensate buyers and sellers in such cases.

**VAYSMAN Igor**  
**Western Chipsets**

The vast majority of annual incentive plans, in practice, suffer from two well-known problems. First, most incentive plans are based on accounting earnings. Second, most incentive plans contain a "kink": a minimum threshold performance that triggers a significant bonus increase. The Western Chipsets case will cover the counter-productive incentives created by "kinked" bonus plans tied to accounting earnings.

Western Chipsets is a medium-sized provider of mobile-communication chipsets; their customers include Motorola, Nokia, Qualcomm, Sony, and Samsung. The firm's incentive plan for key executives included typical features: no bonus if annual audited earnings fell below a threshold level, which was US\$100 million in 2003, and a US\$7 million threshold bonus for the entire top-management team for meeting the US\$100 million target. In November 2003, the firm's preliminary analysis of its 2003 performance predicted that the threshold would not be met.

The management team then reached a decision to "manage" its 2003 earnings by building up its year-end inventories (with a major increase in production in November and December).

This was successful; the 2003 earnings were well in excess of the threshold, and the executives received their threshold bonuses.

The inventory build-up did not have any business purposes, other than "managing" the 2003 earnings to the bonus threshold. One of the major shareholders questioned the inventory increase, eventually discovered the true objective of the build-up, and filed a lawsuit against the management team to recover the bonuses. The first court that heard the case refused to reverse the management bonuses, and the case is currently under appeal.

The case will illustrate the ability of managers to manipulate accounting earnings, the dangers of relying on earnings in bonus plans, and the dysfunctional incentives of "kinked" bonus plans.

**ZOLLO Maurizio  
Response**

Response is a partially EU funded project studying the gaps in perceptions of corporate social responsibility among managers within multinational companies, as well as between them and representatives of stakeholders. We carry out this study through a combination of 10 internal and 5 stakeholder interviews, as well as a large scale web-based survey to a randomized sample of managers. IBERDROLA is one of 32 companies with whom we are going to work to implement the research design.

# Case development

**RANGAN Subramanian**

**SAP Global Growth: Strategy and Challenges**

## **Case 1: SAP Global Growth: Strategy and Challenges**

The purpose of this case will be to expose business executives and MBA students to an important aspect of global strategy in a complex B2B setting. In particular, it will support a discussion (i) on the challenge of being global vs. local (i.e., how to deal with discontinuities); and (ii) on the challenge of pursuing growth while maintaining firm-level coherence (a key to long-term sustainability).

The case can be taught within two contexts: (i) an executive education session on strategy (especially dealing with international growth, size, sustainability); and (ii) an MBA course on global strategy and management.

The basic dilemma here is that the pursuit of growth often requires firms to embrace variety. This is because growth, especially along the international dimension, necessitates the embrace of customers who have different needs and preferences. The challenge for the firm is to deliver this demand-side variety (that tends to accompany international or other segment expansion) without getting overburdened with dysfunctional complexity. Overly complex organizations end up unintentionally sacrificing coherence, which is key to competitiveness and long-term sustainability.

## **Case 2: Evolving SAP Culture: German, International or Global?**

The purpose of this case will be to expose business executives and MBA students to the reasons for and challenges in developing “global” culture within a worldwide firm that has origins in a strong home base. In particular, it will support a discussion (i) on the link between firm culture, competitive advantage, and long-term sustainability; (ii) on the relationship between the geographic loci of firm-wide strategic initiatives, nationality of key decision makers, and the evolution of firm culture; and (iii) on the challenge of building firm identity around multiple worldwide home bases.

The case can be taught within two contexts: (i) an executive education session on strategy (especially dealing with international management); and (ii) an MBA course on global strategy and management.

The basic dilemma here is that today, in more and more industries, human, intellectual, social and financial capital are geographically dispersed. If a firm wants to be an industry leader, then the motto “Made in \_\_\_” (whatever location) makes less difference than, “Made and used by the best in the business”. But developing a global organizational identity is not an obvious task. It often calls for conscious shift in power and resources from historical centers to the periphery (current sacrifices) and conscious shifts in payoffs and processes to keep people integrated within the firm.

## Other news

**VAN DER HEYDEN Ludo**

**Executive briefings Historiques: Napoléon, leader and manager.** Paris. 2 December 2005.

Ludo shared his views on Napoléon, the strategist, based on his INSEAD case “Napoléon Bonaparte, victim of an inferior strategy?” at the Commemoration of the 200<sup>th</sup> Anniversary of the Battle of Austerlitz.