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Recent Research

by Des Dearlove and Stuart Crainer

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On catching malfeasance, improving boards, priming brands, predicting negotiations, and appreciating e-mail.

by Des Dearlove and
Stuart Crainer

Fighting Fraud

Title: Who Blows the Whistle on Corporate Fraud?

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Available Online:

<http://faculty.chicagogsb.edu/luigi.zingales/research/PSpapers/whistle.pdf>

The U.S. Securities and Exchange Commission (SEC) is supposed to be the watchdog agency monitoring corporate accounting activities. But have its efforts over the years — and especially in the wake of the Enron and WorldCom scandals — helped identify and reduce wrongdoing? The authors of this article examined 230 cases of alleged corporate fraud occurring in the United States between 1996 and 2004, involving companies with more than US\$750 million in assets. They found that the SEC uncovered just 6 percent of the cases and auditors 14 percent, whereas the media and employees exposed 14 percent and 19 percent of fraud cases, respectively. Equally interesting was how long it took

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to detect fraud. Financial analysts and short sellers — who benefit from close observation of financial markets — unearthed internal hanky-panky in 9.1 months, on average, whereas the SEC needed an average of 21.2 months. Employee whistleblowers sounded the alarm in an average of 20.9 months. Perhaps self-preservation slows down whistleblowers. According to the study, in 82 percent of cases in which they are named, employee whistleblowers lose their jobs, resign as a result of their actions, or are given significantly changed responsibilities.

Bottom Line: Although regulatory systems have been put in place to catch corporate malfeasance, this research casts doubts on their usefulness. We need better incentives to encourage witnesses to reveal fraud and come forward with evidence.

Boardroom Behavior

Title: Flattery Will Get You Everywhere (Especially If You Are a Male Caucasian): How Ingratiation, Boardroom Behavior, and Demographic Minority Status Affect

Additional Board Appointments at U.S. Companies

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Available Online: www.bus.umich.edu/Academics/Departments/MO/westphal%20&%20stern%20amj.pdf

A survey of 760 board members of Fortune 500 companies examined the way directors earn appointments on multiple boards. The results demonstrated that specific behaviors have a significant influence over whether or not fellow board members will nominate their colleagues to other boards. Board members who praised the efforts of management and ingratiated themselves with other directors were often rewarded for their behavior with multiple board appointments. Directors who gave honest feedback to management, provided tight oversight, and lobbied for close evaluation of executive proposals did not reap the same benefits. The findings concerning minorities and women were startling: Their attempts at ingratiation are rewarded less and their attempts at control more severely punished.

Bottom Line: So much for independent-minded boards. Companies are generally a long way from recruiting and cultivating diverse board members who offer constructive advice and responsible monitoring of executive behavior.

The Power of Suggestion

Title: How Environmental Cues Influence Product Evaluation and Choice

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Available Online: <http://ssrn.com/abstract=977087>

On July 4, 1997, NASA landed the Pathfinder spacecraft on the surface of Mars, a mission that generated huge media interest worldwide in the ensuing months. This period was also marked by an unexpected surge in sales of Mars Bars, a chocolate candy made by Mars Inc. — a curious example of a phenomenon called “priming,” according to this report. To explore the effect of priming on consumer behavior, the authors conducted a series of six surveys in stores, at universities, and

Board members who ingratiated themselves with other directors were often rewarded — unless they were women or minorities.

in the laboratory, among other places. The results showed that consumers exposed to environmental cues — news stories about Mars, for example — are more likely to notice related products and brands. In one case, the authors asked 144 supermarket customers to list the brands of chocolate candies and soda that first came to mind. Customers mentioned items with orange packaging, such as Reese's Peanut Butter Cups and Sunkist orange soda, more often on the day immediately preceding Halloween than one week after Halloween.

Bottom Line: Marketers should consider outside influences when designing product names, packaging, and marketing messages.

Slice of Life

Title: Thin Slices of Negotiation: Predicting Outcomes from Conversational Dynamics within the First Five Minutes

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Available Online: <http://ssrn.com/abstract=973827>

Malcolm Gladwell's 2005 best-selling book *Blink: The Power of Thinking without Thinking* highlighted the ability of human beings to make accurate judgments based on first impressions — or “thin slices” of observational data. In that book, Gladwell cited a 1992 study of married couples that accurately predicted those heading for divorce in the next six years based solely on observing three minutes of a marital dispute. This paper examines whether similar observational data can be used to predict the outcome of negotiations. (See “The Science of Subtle Signals,” by Mark Buchanan, *s+b*, Autumn 2007.) The authors asked more than 100 graduate students enrolled in an MBA course on organizational behavior to role-play an employment negotiation between a middle manager candidate interested in moving to a different department and an internal recruiter who is also a vice president in the organization. The parties were graded on their ability to negotiate favorable results for themselves. In some instances — such as when discussing salary or potential start dates — the middle manager and vice president had different objec-

tives; the middle manager was seeking high wages and a first day that was convenient to him or her, while the vice president was protecting the company's interests. For other issues, such as settling on a new job assignment for the middle manager, a mutually beneficial resolution was the best conclusion and earned the maximum points. The mock meetings were recorded, and the first five minutes of conversation analyzed by computer for vocal quality and conversational interaction.

Four factors influenced the outcome of the sessions: activity (the amount of time a person was speaking), engagement (the ebb and flow of the dialogue and who controlled it), emphasis (variation in pitch and volume), and mirroring (empathy shown by imitating the behavior of the other person). The vice president garnered a more favorable outcome when he or she spoke more often and maintained control of the conversation. The middle manager, in turn, benefited when using mirroring characteristics to communicate with the more senior colleague.

For both vice presidents and middle managers, too much em-

phasis was a negative factor in the first five minutes.

Bottom Line: People in organizations who understand when to use each of these four factors are more likely to get what they want.

Information Dissemination

Title: Productivity Effects of Information Diffusion in Networks

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Available Online: <http://ssrn.com/abstract=987499>

It's critical to distribute information quickly and reliably throughout an organization. Today, e-mail is the primary means of information dispersal, but is it the most efficient? The authors analyzed 10 months' worth of e-mail (more than 125,000 messages in total), as well as five years of revenue data and employee interactions at a midsized executive recruiting firm. They identified two types of information that employees shared with one another. The first was "event news": simple, declarative messages, about such news as forthcoming layoffs or a significant change in top management, that were spread both vertically and laterally throughout the organization in a rapid and pervasive manner. The information moved quickly among employees with little regard to reporting relationships. The sec-

ond type was labeled "discussion topics": more specific and procedural communications, with the information tending to be more complex and relevant to accomplishing specific tasks. Discussions were influenced by functional relationships and the strength of ties between people. This type of information was shared by colleagues who worked closely together and moved vertically up and down the organization.

The report concludes that e-mail was valuable in the organization in two areas. First, fast access to information via e-mail increased the number of projects completed by each individual, and second, the receipt of new information communicated via e-mail contributed to additional revenue generation.

Bottom Line: The relationships among co-workers and the way they communicate and spread information is a highly significant predictor of worker productivity. +

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