Photograph by Bruce Weller

Research Notes
by Des Dearlove
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Recent Studies

On diversity's payoff, e-pricing strategy, marketing and growth, and other topics of interest.

Diversity and the Bottom Line

Robin J. Ely (rely@hbs.edu) and David A. Thomas (dthomas@hbs.edu), "Learning from Diversity: The Effects of Learning on Performance in Racially Diverse Teams," Harvard Business School Working Paper #04-017. www.hbs.edu/research/facpubs/workingpapers/abstracts/0304/04-017.html

A legal firm specializing in cases involving low-income women had an all-white staff. The firm then hired some black attorneys, who brought a new perspective to the firm's business. It began to pursue cases its all-white staff would have considered irrelevant or inappropriate. The firm's business grew, as did its commitment to diversity.

Harvard Business School's Robin J. Ely, an associate professor of organizational behavior, and David A. Thomas, the Naylor Fitzhugh Professor of Business Administration, use this and other examples to examine the conditions under which racial diversity in a work group enhances or detracts from performance. Their conclusion: Racially diverse teams with a "learning perspective" — a willing-

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ness to learn and an openness to learning — perform better than similar teams with a nonlearning perspective. Therefore, the authors conclude, a racially diverse team can use its diversity to improve performance.

To explore these issues, the professors studied people employed in more than 450 branches of three retail banks. The research was based on responses to four items in annual employee attitude/satisfaction surveys covering the extent to which employees believed their opinions were sought by their employers and regarded as valuable.

Professors Ely and Thomas found that the most open organizations — that is, those that encourage constructive conflict and the exploration of diverse views — maximized the performance benefits of their open-mindedness. These organizations regard diversity as a resource for learning about how best to do the group's work. The emphasis is on productive learning behaviors and use of knowledge, including the sharing of information and insights, the receiving and giving of feedback, requests for help, and discussion of mistakes.

By contrast, the authors found when racially diverse groups suppress their differences, the sharing of different perspectives and cultural experiences cannot be mobilized when they would be useful.

Professor Bart Nooteboom of the Rotterdam School of Management, Erasmus University, echoes some of the Harvard researchers' findings. His paper "Organisational Learning and Multinational Strategy" (in the Erasmus Research Institute of Management Report Series and available at https://ep.eur.nl/handle/1765/1123) examines the premise that internationalization makes for better learning organizations. Like Professors Ely and Thomas, Professor Nooteboom found that openness to differences is the key to productive learning for organizations; it is a primary way to discover new insights and overcome inertia.

Professor Nooteboom suggests there is a cycle of discovery as companies internationalize. This cycle has three elements: *generalization*, the application of competencies across a wide variety of contexts; *differentiation*, the application and adaptation of competencies to local contexts; and *reciprocation*, the ability and willingness to interact with others in new working situations and, as a result, to adopt alternative ways of thinking and acting.

Price Rigidity in the E-World

Robert J. Kauffman (rkauffman@csom.umn.edu) and Dongwon Lee (dlee@csom.umn.edu), "Should We Expect Less Price Rigidity in the Digital Economy?" Proceedings of the 37th Hawaii International Conference on System Sciences, 2004. http://csdl.computer.org/comp/proceedings/hicss/2004/2056/07/205670178b.pdf

Most people think the digital economy makes for highly flexible, transparent, and responsive pricing. Online experience buying airline tickets, renting cars, and booking hotels, with prices changing by the hour, suggests that less price rigidity is one of the happy side effects of the digital economy.

But, according to Robert J. Kauffman, a professor and director of the Management Information Systems Research Center at the University of Minnesota's Carlson School of Management, and Dongwon Lee, a doctoral student at the school, our first instincts may be wrong. In their view, prices in the digital economy are frequently as inflexible as they are in the "real world."

The researchers present this conclusion through an overview of the five key theories used to explain price rigidity (also known as *price stickiness*, *inertia*, and *inflexibility*). These authors define rigidity as "when prices do not adequately change in response to underlying cost and demand shocks."

Price rigidity may occur because the cost of price adjustment is too high. Changing prices is often just as time-consuming and expensive in e-commerce as it is in the bricks-and-mortar environment. New sales materials — printed and online — must be created, and there is the same complexity in communicating pricing changes internally, and to partners, suppliers, and customers.

The second force behind price rigidity is market structure. The more monopolistic the market is, the stickier pricing becomes. Even in markets with a host of competitors, rivals often take into account the prices charged by other companies when they set their own prices. In the digital economy, as in the physical one, economic actors often use tacit collusion and implicit agreements to maintain prices at a certain level, the authors conclude.

Companies may also seek price rigidity when demand is changing. The researchers contend that companies use their inventories to buffer demand shocks and use nonprice elements, such as quality and service, to support price stickiness. So, for example, increased demand may result in longer waiting times rather than higher prices; less demand might lead to improved service rather than lower prices. In the case of e-commerce, where issues such as seller reputation are vital, the strategic use of nonprice elements is also likely to lead to price rigidity.

The fourth theory of price rigidity has to do with nominal and implicit contracts with consumers. The authors cite Amazon.com's short-lived online experiment selling certain products to different customers at different prices. This antagonized customers: Their unwritten agreement with the online retailer, they thought, was that everyone paid the same amount for every item. Amazon swiftly halted the practice.

When e-commerce does foster price flexibility, it usually has to do with the nature of "asymmetric information." Asymmetry assumes that either the firm supplying a product/service or its customer possesses more information than the other. The digital economy reduces the price rigidity caused by information asymmetry, because it is a more transparent business environment. As a result, imprecise perception is trumped by real knowledge. Therefore, some companies will cut prices to gain economic and strategic advantages, such as increased market share and customer loyalty.

Overall, however, the authors argue, there is no e-commerce pricing free-for-all. Even in cyberspace, traditional laws of economics apply.

Marketing's Role in Growth

George S. Day
(dayg@wharton.upenn.edu),
"Marketing and the CEO's Growth Imperative," unpublished.
http://morris.wharton.upenn.edu/ideas/currentresearchpapers.html

George S. Day, the Geoffrey T. Boisi Professor of Marketing at the Wharton School, provides a strong case in his paper "Marketing and the CEO's Growth Imperative" that companies court risk when they marginalize the role of marketing in the growth strategies essential to meeting the challenges of demanding customers, shareholders, and competitors.

Professor Day says that marketing is left out primarily because, as is the case with any functional area, it tends to become bogged down in short-term tactical priorities. Taking care of today's business is always more pressing than making plans for tomorrow's growth. Professor Day cites the belief shared by such strategy experts as Clayton Christensen, Richard Foster, and Gary Hamel that marketing is simply too close to customers and too focused on what the competition is doing today to play a productive role in achieving the required breakthroughs by which future growth is achieved. (See "Bring on the Super-CMO," by Steve Silver, *s+b*, Summer 2003.)

Professor Day suggests that marketing, instead of being constrained in a functional straightjacket, can be dispersed throughout an organization through the use of process-based teams rather than functional groups. By way of illustration, he points to the work of Procter & Gamble (P&G) in connecting other business disciplines to marketing. The company's new approach to R&D, called Connect & Develop, stretches R&D's traditional resource-intensive activities to include an understanding of how planned products can be marketed and how they will be received by consumers. Fundamental to this strategy is the notion that the marketing department does not have a monopoly on consumer insights. Instead, such insights can come from throughout the organization.

Using P&G and companies with similar initiatives as benchmarks, Professor Day distills marketing's role in the growth-focused organization down to *navigation*, *articulation*, and *orchestration*.

Navigation is concerned with being in touch with the marketplace, using marketplace knowledge to anticipate opportunities, and being willing to share information. Sensing of opportunities requires that marketing's view of the world embrace peripheral competitors and unusual business models or technologies.

Articulation refers to the need to refine and renew an organization's core value proposition as circumstances and the organization itself change. Instead of pursuing safe incremental improvements, marketing must be willing to challenge industry wisdom.

Marketing's third role is what Professor Day calls orchestration. If an organization is to be market-driven, marketing is the organizational adhesive that must hold theory and practice together. Marketing ensures that strategies for growth are responsive to changes in that market and to competitive activities.

Coffee, Tea, or a Survey?

Patti Williams (pattiw@wharton.upenn.edu), Gavan J. Fitzsimons (gavan@duke.edu), and Lauren G. Block (lauren_block@baruch.cuny.edu), "When Consumers Don't Recognize 'Benign' Intentions Questions as Persuasion Attempts." http://hops.wharton.upenn.edu/ideas/pdf/Williams/Benign-Williams.pdf

How likely are you to buy a Starbucks coffee today — or, for that matter, a meal at McDonald's? If you find yourself ordering a Double Decaf Tall Iced Skim Latté or sinking your teeth into a Big Mac before the day is out, it may be because you just finished taking a survey.

Several studies have shown that asking people questions about their intentions leads them to overstate the likelihood that they will engage in a certain behavior; more surprisingly, it appears that simply asking the questions can actually change people's behavior. For example, in a 1980 study by Steven J. Sherman, professor of psychology at Indiana University, 45 people were asked about their willingness to be volunteers for the American Cancer Society. Although only 4 percent of a control group had volunteered three hours to the charity, 48 percent of the studied group averred that they would work for it. Amazingly, 31 percent (14 out of 45) of those who had answered the question actually did subsequently volunteer.

This phenomenon, termed the "mere-measurement effect," is explored by Patti Williams, the James G. Campbell, Jr. Memorial Term Assistant Professor of Marketing at the Wharton School, University of Pennsylvania; Gavan J. Fitzsimons, associate professor of marketing at the Fuqua School of

Procter & Gamble's R&D approach includes an understanding of how planned products can be marketed.

Business, Duke University; and Lauren G. Block, associate professor of marketing at the Zicklin School of Business, Baruch College. The authors hypothesize that answering a straightforward question about future intentions, a question outwardly viewed as innocent and non-manipulative, registers in people's unconscious minds and influences their future choices, increasing socially desirable behaviors and decreasing socially undesirable behaviors.

To test this, the professors asked 232 students one of two questions, either "How likely are you to floss your teeth in the next week?" or "How likely are you to eat fatty foods in the next week?" The researchers presented the two questions one of three ways: with no survey sponsor; with the name of an objective survey sponsor; and with the name of an obviously self-interested sponsor (the Association of Dental Products Manufacturers [ADPM] and the American Fruit Growers Association).

One week later, respondents were given a follow-up questionnaire that measured the number of times they had flossed their teeth and eaten fatty foods over the previous week. As expected, the flossing question led to an increase in flossing, and the fatty foods question led to a decrease in the consumption of high-fat foods. However, in both instances, when the question appeared to come from a self-interested sponsor, the mere-measurement effect was lessened, suggesting that students' manipulation alarm was activated. In the case of flossing, knowing the ADPM was behind the question created a backlash: Not only did flossing not increase, it actually decreased.

The results support the idea that mere-measurement effects occur only when people believe there is no hidden agenda or self-interested party doing the questioning. Once they are aware of a possible commercial intent to persuade them to perform a specific activity, they are more likely to do the opposite. This finding suggests that most people answer questions about their intentions unconsciously — or "mindlessly," as the authors put it — without knowing how it might affect their behavior. It is only when they detect an intention to manipulate them that they engage in what the authors call *mindful processing*.

Market research firms often wrestle with the potential reactions of respondents in determining whether to identify the sponsors of their surveys. These studies indicate that it's probably a bad idea.

The authors' most recent research on the mere-measurement effect indicates that it sometimes prompts people to act against their self-interest. For example, consumers may know that eating fatty food is harmful but still derive pleasure from it, or believe that flossing is good for them but find it a chore. Such ambivalence may encourage people to give in to a survey question's effect on their behavior — even when the behavior is detrimental to their personal welfare.

This highlights a pitfall of surveys for at-risk populations. For example, just by asking about potentially unhealthy activities, well-intentioned organizations could actually encourage people to increase the same risky behaviors they're trying to lessen. +