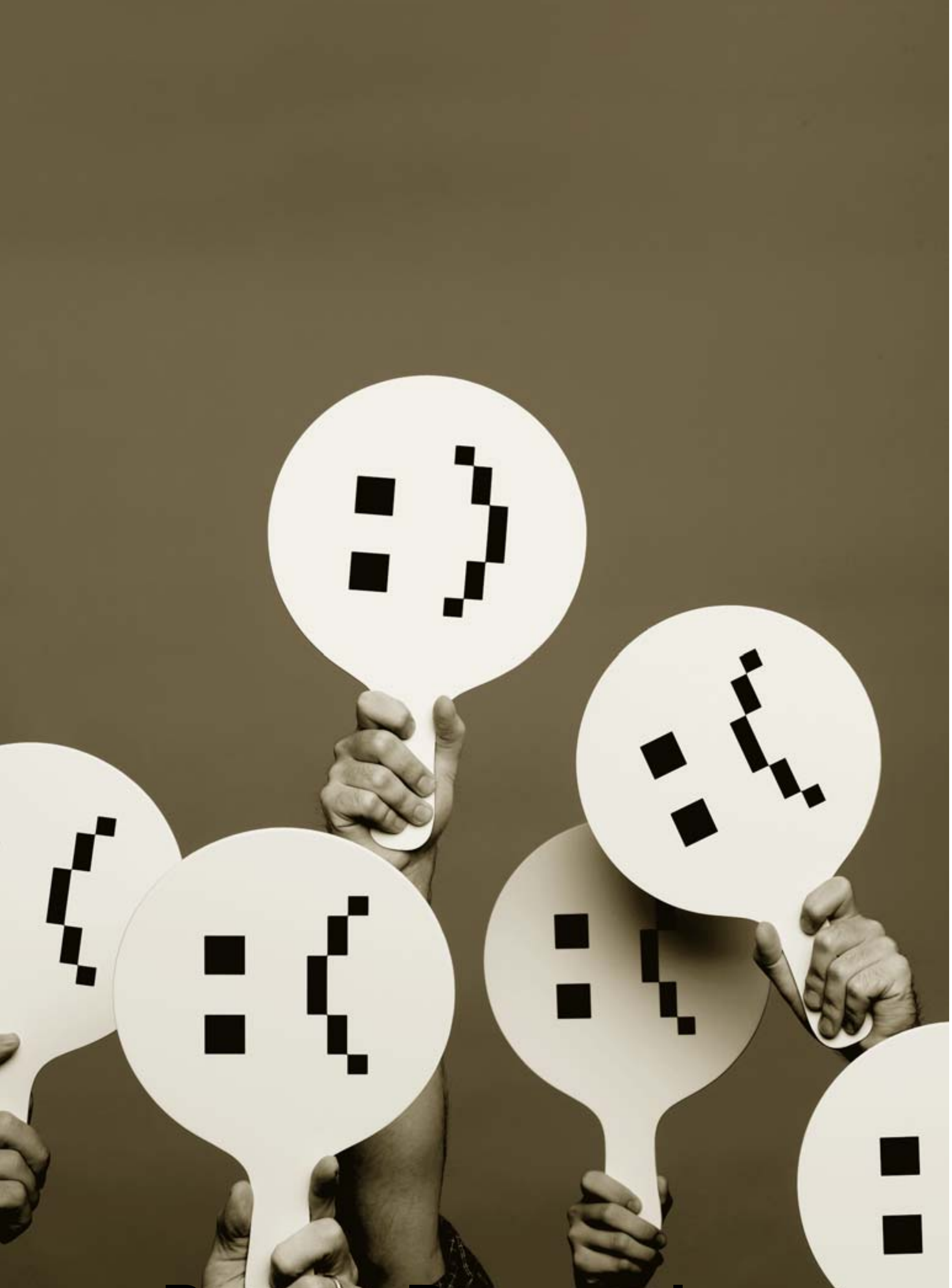
Recent Research
by Des Dearlove and Stuart Crainer



Photograph by Matthew Septimus

Recent Research

On auction psychology, e-mail tactics, CEO turnover, and more.

Auction Infatuation

James R. Wolf (jrwolf@ilstu.edu), Hal R. Arkes (arkes.1@osu.edu), and Waleed A. Muhanna (muhanna.1@osu.edu), "Is Overbidding in Online Auctions the Result of a Pseudo-Endowment Effect?" http://ssrn.com/abstract=735464

Many people associate auctions — both the traditional and the online varieties — with bargain hunting. Yet research shows that people frequently overbid. One study, for example, found that 98.8 percent of buyers in online auctions for CDs, books, and movies overpaid. In almost 80 percent of these cases, multiple online retailers sold the item more cheaply.

Overbidding has previously been linked to the competitive nature of auctions. In particular, it was believed that bidders were susceptible to something called "auction fever" — irrational, emotionally charged overbidding. Yet there may be another explanation, according to James R. Wolf, assistant professor of information systems at the School of Information Technology at Illinois State Uni-

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versity; Hal R. Arkes, professor of psychology at Ohio State University; and Waleed A. Muhanna, associate professor of management information systems at Fisher College of Business at Ohio State University. The authors argue that temporarily being the highest bidder during an auction can create a sense of ownership or attachment to an item, which promotes overbidding. Direct contact with the item can have the same effect.

They arrived at this conclusion after conducting two studies. The first examined 2,182 passenger vehicle auctions at the eBay Motors auction site. In a majority of cases, bidders continued to submit new bids when their previous high bids were exceeded.

In a second experiment, participants were allowed to examine a coffee mug before bidding on it. The longer people examined the item, the more they were prepared to pay for it — even when they knew they could buy an identical mug from a local store for less money.

Both cases, the authors say, are examples of a phenomenon called the endowment effect, in which possession of an item increases the value a person places on it. Because of this phenomenon, traditional retailers sometimes try to enhance the emotional attachment between buyers and their products. Some car dealerships, for example, offer 24-hour test drives to their customers, in hopes that taking the vehicle home will clinch the sale. Similarly, pet stores provide areas where customers can play with the puppies.

In auctions, being the highest bidder for a time (or even holding the item being sold) can also foster a sense of possession and create an emotional attachment to the item. The research found that the longer individuals remained the highest bidder, the more attached they became to an item — and the more likely they were to make a counterbid to regain psychological possession if they were outbid.

The authors acknowledge that their observations can also be largely explained by auction fever. The problem here, they note, "lies with disentangling the effects of bidders' desire to win the item from the desire to simply win the auction."

On this point, they note, previous research into auctions perhaps sheds more light. A study by Gillian Ku, assistant professor of organizational behavior at London Business School; J. Keith Murnighan, Harold H. Hines Jr. Distinguished Professor of Management and Organizations at the Kellogg School of Management at Northwestern University; and Deepak Malhotra, assistant professor at Harvard Business School, found that auction winners, even those who bid more than they originally intended, had fewer regrets than losers. This indicates a psychological change in valuation during the auction process, rather than a moment of emotionally charged madness.

This could have important implications. For example, it suggests that by prominently listing the name of the highest bidder, online auction sites could generate more activity and higher revenues for both sellers and auction providers. It also suggests that companies using online auctions for procurement should train employees who participate in these events to be, as much as possible, emotionally detached.

The Negotiator's Dilemma

Matthew A. Cronin (mcronin@gmu.edu) and Laurie R. Weingart (weingart@cmu.edu), "The Differential Roles of Respect and Trust on Negotiation," IACM 18th Annual Conference. http://ssrn.com/abstract=726183

Imagine this: A gas station owner proposes to sell his property to a distributor so he can retire, buy a boat, and take a round-the-world trip. Adding up all of his financial needs, he calculates that he wants a minimum of $580,000. The distributor would like to pay no more than $500,000 and dispatches one of its managers to reach a deal. Neither side knows the other's financial expectations or constraints. They sit down to negotiate.

Eighty-eight pairs of MBA students role-played this situation as part of research conducted by Matthew A. Cronin, an assistant professor of management at the School of Management of George Mason University, in Fairfax, Va., and Laurie R. Weingart, professor of organizational behavior and theory at the Tepper School of Business, Carnegie Mellon University. Before the negotiations began, the participants were asked about their attitudes toward their negotiating partners and their intended strategies. (Research suggests five potential negotiating strategies: problem solving, contending, yielding, inaction, and compromise.) The authors sought to explore the roles of respect and trust in negotiations.

The authors define trust as "the willingness to be vulnerable to another person in the absence of monitoring or the belief that a person does not intend to deceive or harm the trusting person." Respect is "the value one is shown in the way he or she is treated or the level of esteem for another individual based on one's own values."

The negotiations were measured against three outcomes. These outcomes were, first, whether the two sides reached an agreement or not; second, what the quality of the agreement was; and third, the level of creativity involved. As the authors point out, the capacity for creativity is much higher than is first apparent. To facilitate a deal, the distributor could, for example, sponsor the owner's new boat or offer the owner a job on returning from his trip.

The authors conclude that respect is important to a successful negotiation, but too much trust can, in fact, lead to a worse outcome for a negotiator. Respect engenders respect from opponents at the table and, as a result, it increases the possibility of mutual problem solving and is vital in achieving creative solutions. Trust, by contrast, tends to dull the competitive edge of negotiators, often leading them to give away their bargaining chips without improving their ability to come up with imaginative compromises. In other words, the authors argue, if you want to get a better deal, respect the people you are negotiating with, but don't trust them for a minute.

Flames and Flattery

Lindred L. Greer (LGreer@fsw.leidenuniv.nl) and Karen A. Jehn (jehn@wharton.upenn.edu), "Relationship and Task Conflict in E-Mail: Performance Effects Moderated by Verbal Style and Influence Tactic Usage," IACM 18th Annual Conference.
http://ssrn.com/abstract=732565

Conflict is a fact of organizational life. And e-mail adds a new dimension to it.

There are two broad types of organizational conflict: relationship-oriented and task-oriented. The former has to do with differences ignited by personal issues and incompatibilities. The latter can be regarded in some instances as a force for good, surfacing important questions and creating dialogue.

E-mail offers new insights into conflict because research suggests that disputes via e-mail are more emotionally heightened than face-to-face disagreements. Free of nonverbal clues and social cues, and even potentially anonymous, e-mail frees participants from some of the inhibitions of social norms. Potential problems arising from this include extreme, tactless language;

difficulties in coordination, feedback, and reaching group consensus; and polarization.

To determine the role played by e-mail in organizational conflict, Lindred L. Greer, a Ph.D. student at Leiden University in the Netherlands, and Karen A. Jehn, a professor in the management department of the Wharton School at the University of Pennsylvania, examined the use of e-mail by political activists over three years. The groups studied included an international women's organization, an environmental organization, and a community improvement organization. More than 7,500 e-mails from 165 individuals were analyzed and rated.

The most salient finding from the research is the importance of a good verbal style — characterized by clear language, correct spelling, and the absence of "non-fluencies" (such as "you know" and "like"), qualifiers ("maybe," "perhaps," and so on), and indefiniteness ("somewhere," "stuff," etc.). Verbally adept e-mails are less likely to produce relationship conflict, the authors found, and more likely to resolve task-related conflict. Verbal mastery gives credence to arguments, suggests attention and consideration,

Direct and immediate, e-mail amplifies both communication and the opportunities for conflict.

and encourages respect from other group members.

"Soft influence tactics," such as flattery and ingratiation, and "rational influence tactics," such as using logic and sharing information, also lessened the likelihood of relationship conflict. Flattery, even by e-mail, is a "useful conflict management tool," say the authors. Conversely, hard tactics — abruptness and direct orders — are likely to increase conflict.

Direct and immediate, e-mail amplifies both communication and the opportunities for conflict: Communicate with care.

Toyota vs. GM: Game Over?
Steven J. Spear (sspear@hbs.edu), "Why General Motors Lost and Toyota Won," Harvard Business School Working Paper Series no. 05-080. (No URL. Paper available only from author.)

It used to be said that: "As goes General Motors, so goes America." But that is no longer true. For years, GM, the former heavyweight champion of the automotive industry and U.S. economic bellwether, has been losing ground to the ultimate lean, mean car-making machine, Toyota. Watching these two giants face off has kept observers on the edge of their electrically operated seats for more than two decades. But the game is now over, declares Steven J. Spear, assistant professor at Harvard Business School's Technology and Operations Management Unit. Toyota has won.

To back up this point of view, Professor Spear contrasts the recent performance of the two companies.

By April 2005, because of declining sales revenues and rising pension costs, GM's credit rating was downgraded to junk. Moreover, its share of the U.S. car market had slumped from 30 percent in 1995 to just 26.7 percent. In June 2005, desperate to shed inventory, GM launched its "Employee Discounts for Everyone" offer, in which it offered all consumers the same deals on its cars that it offers GM employees. That temporarily lifted the automaker's market share to 33 percent, but at a cost to the company of $450 on every vehicle sold.

Meanwhile, Toyota has overtaken Ford as the world's second-largest automotive producer, and DaimlerChrysler as the third-largest in North America. Toyota's profits now exceed those of all its major competitors combined. (GM lost $1.1 billion in the first quarter of 2005 alone.) And although supply would outstrip demand in the U.S. car market by as much as 20 percent if all automakers were operating at full capacity, Toyota is unable to keep up with increasing demand for its cars.

So why did Toyota win — and what can other companies learn from GM's failure? The glib answer is to point to the Toyota production system (TPS) and the company's famously lean manufacturing process. But, according to Professor Spear, there is much more to it. The Japanese company's success, he says, is based on "coupling the process of doing work and the process of learning to do work better."

This is rooted in four distinct Toyota capabilities. First, the company designs work as a series of nested experiments, in which each element of a larger process is broken down into smaller ones, so that success is likely and failure immediately identified as a problem-solving opportunity. Second, Toyota improves work through frequent, high-speed, rapid-feedback experiments that enhance performance and create new knowledge. Third, problems are solved collaboratively. Finally, and most importantly, management's primary task is to develop broad-based capabilities for the design and improvement of work and sharing of knowledge. In short, says Professor Spear, Toyota is the ultimate learning machine.

GM's inability to keep up, the author argues, is rooted in four corresponding failures. First, GM implemented lean manufacturing tools without attention to the self-diagnostic element that is integral to Toyota. Second, the automaker allowed people to work around problems rather than addressing them immediately. Third, GM failed to use collaborative problem-solving processes. Finally, GM senior management delegated — or even abdicated — improvement and capability development to middle managers and supervisors, instead of recognizing it as a core managerial task.

The last point is especially telling. Professor Spear shadowed a senior Toyota plant manager, Alan Muswell. He describes how Mr. Muswell visited each improvement project every two weeks so teams could update him on progress with the problem they were trying to fix. Mr. Muswell then asked what Professor Spear says is the quintessential TPS manager question: "What did you learn?"

Competing with Toyota, Professor Spear concludes, "is like running a race in which you repeatedly trip over your own untied shoelaces while your competitor has not only tied his after the first stumble but is continually improving his stride, cadence, rhythm, and form. You chase but he continues to pull away."

Temp CEO (or Not)

Ray Fisman (rf250@columbia.edu), Rakesh Khurana (rkhurana@hbs.edu), and Matthew Rhodes-Kropf (mr554@columbia.edu), "Governance and CEO Turnover: Do Something or Do the Right Thing?" Harvard Business School Working Paper no. 05-066. www.hbs.edu/research/facpubs/workingpapers/papers0405.html#05-066

In the early 1990s, a group of Citicorp shareholders demanded that the board remove CEO John Reed from office. The reason for the clamor was the financial-services giant's recent weakness, borne of economic recession in the United States, a Brazilian currency crisis, nonperforming domestic real estate loans, and highly leveraged transactions. The board refused to capitulate, John Reed stayed, and the bank's performance recovered.

Mr. Reed's case and many other executive-suite conflicts are the subject of a new study by Ray Fisman, Meyer Feldberg Associate Professor of Business at Columbia University's Graduate School of Business; Rakesh Khurana, an associate professor at Harvard Business School; and Matthew Rhodes-Kropf, an associate professor of finance and economics at Columbia University's Graduate School of Business. They explore the conditions that led to executive turnover — or retention — at the largest banks, financial-services firms, retailers, and transportation companies in the United States between 1980 and 1996.

The authors' key finding is that there are long-standing — perhaps inevitable — trade-offs at work between boards and stockholders when CEOs are under fire. These trade-offs lie at the heart of the continuing debate about the appropriate allegiance of boards as they manage corporate activities.

The authors cite John Reed's case as an example of an increasingly common situation that pits ownership against executive power. Though shareholder voices are becoming louder and more influential in many companies, their absolute power is limited, because CEO hiring and firing is delegated to the board of directors. The board, empowered to hire and fire the CEO, has an obligation not just to represent the shareholders but also to consider what's best for the company in the long term. In the case of Citicorp, the board reasoned that responsibility for Brazilian economic instability could not credibly be laid at any CEO's door, and that Mr. Reed was still the best leader for the job. Thus, the board rejected the shareholder case.

In some cases, the authors found, the board decides differently — sometimes with poorer results for the company. Voluble stockholders paired with a compliant board may fire a CEO for matters beyond his or her control. Just as problematic are entrenched boards beholden to the executive suite, which may offer unreasonable amounts of protection to CEOs even when it is clear that they should be let go.

The reality, according to the authors, is that boards are rarely perfect advocates for the stockholders. And this, as the case of John Reed illustrates, is often just as well.

Soccer CEOs

Udo C. Braendle
(udo.braendle@manchester.ac.uk),
"Replacement of Executives and Corporate Culture."
http://ssrn.com/abstract=721442

Additional insight into CEO turnover comes from an unlikely source: Austria's Premier Soccer League. Udo C. Braendle, a lecturer at the University of Manchester's School of Law in the U.K., sought to understand how a change in top management affects an organization. Reasoning that soccer coaches are much like chief executive officers — they work, after all, in an enormously competitive international multibillion-dollar industry — the author wanted to see whether firing a coach for a team's poor performance had the desired effect of turning the organization around. After examining the outcomes of 1,979 games that took place just after a team's leader had departed, Mr. Braendle found that replacing the coach did nothing to improve the team's showing on the field.

The reason is tied to cost and culture, the research concludes. Replacement is expensive. Large amounts are spent on replacing CEOs — and soccer coaches — typically involving a golden handshake for the ousted boss and a premium for the successor. In addition, organizational culture cannot easily be changed within a few weeks.

The truth is that there is no universal or instant remedy for companies or CEOs that are performing poorly. Like the study by Professors Fisman, Khurana, and Rhodes-Kropf, this piece of research concludes that shareholders and boards of directors (and owners of soccer teams) need to take the long view on corporate performance and the merits of their leaders. ✚