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Recent Research

by Des Dearlove and Stuart Crainer

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On Southwest's new IT strategy, reputation as a crime deterrent, the value of self-disclosure, customer perception of offshoring, and more.

Just Enough Tech?

Title: Building Business Agility at Southwest Airlines
Authors: Jeanne W. Ross (jross@mit.edu) and Cynthia M. Beath (cbeath@mail.utexas.edu)
Publisher: MIT Sloan, Research Paper No. 4664-07
Available Online: http://ssrn.com/abstract=1020963

In 2006, Southwest Airlines racked up its 34th consecutive year of profitability, outperforming every other airline in the world and solidifying its position as the largest U.S. airline by number of passengers flown. Interestingly, for a company that proudly carries the reputation of a brash, innovative startup, Southwest eschewed the use of information technology as a competitive tool during much of its history. With some notable exceptions, including its introduction of the industry's first paperless ticketing system in the 1990s and early adoption of online sales in March 1995, Southwest's success was built on extensive one-on-one customer service and traveler amenities as the key to consumer satisfaction.

By 2002, however, Southwest

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was facing pressure from new low-cost airlines such as JetBlue. In response, Gary Kelly — then CFO, now CEO — decided that only by embracing technology would Southwest be able to remain competitive as a low-cost airline. Since then, the carrier has undergone a transformation based on an approach the company calls "just enough." A particular feature is the adoption of extremely disciplined processes for prioritizing and delivering new IT systems.

By 2007, for example, 80 percent of the company's IT projects were driven by seven company-wide business strategy teams, with 50 percent designated as strategic projects critical to the future of the business. As a result of this effort, the number of employees per plane dropped from 90 in 2002 to 68 in 2006. Southwest.com has also become the most visited airline Web site, and improvements to the company's information technology infrastructure have cut baseline IT costs by 10 percent.

Bottom Line: Southwest is bucking the trend again. Although many companies complain of the failure of so-called IT transformational efforts to do anything but add headaches, costs, and a few enhancements to the organization, the authors show that Southwest is proving that a well-planned and well-managed IT implementation can deliver significant benefits.

Crime and Punishment

Title: Why Managers Fail to Do the Right Thing: An Empirical Study of Unethical and Illegal Conduct
Authors: N. Craig Smith (craig.smith@insead.edu), Sally S. Simpson (Ssimpson@crim.umd.edu), and Chun-Yao Huang (cyhuang@management.ntu.edu.tw)
Publisher: *Business Ethics Quarterly*, vol. 17, no. 4
Available Online: http://facultyresearch.london.edu/docs/BEQ03—Smith_indd_%282%29.pdf

In recent years, the prosecution of C-suite felons and the establishment of a new regulatory framework to deter future miscreants, led by the Sarbanes-Oxley Act, have drawn plenty of media and legal attention to white-collar crime. Borrowing heavily from criminology and management literature, this paper probes the reasons for corporate wrongdoing and analyzes whether current penalties and regulations fit the crime or, indeed, lessen the possibility of future incidents.

The authors presented 78 corporate executives with three scenarios in which a manager decides to take part in an unethical and illegal act (although the respondents weren't specifically told that the incident was criminal): price-fixing, bribery, and violation of emission standards. They first asked the executives whether they would do as the manager had done under the circumstances. The study found that the threat of legal action does not directly affect the probability that misconduct will occur. Factors that the executives considered more important were their personal evaluation of the ethics of the act — legal or not, their expectations of harm to their reputation if they were associated with the act, and whether the act was ordered by a superior.

Bottom Line: Executives are moved primarily by the amount of respect they gain or lose as a result of their actions, so for sanctions for

Organizations freely disclosing their own misbehavior tend to become more compliant with government regulations.

corporate wrongdoers to be effective, they have to be associated with damage to an executive's reputation.

The Corporate Confessional

Title: The Causes and Consequences of Industry Self-Policing
Authors: Michael Toffel (mtoffel@hbs.edu) and Jodi L. Short (jodishort@earthlink.net)
Publisher: Harvard Business School, Working Paper No. 08-021
Available Online:
www.hbs.edu/research/pdf/08-021.pdf

If you want to get away with questionable behavior, just confess. That's the message from a number of federal agencies to the companies they regulate. For example, health-care providers that have violated their Medicare or Medicaid obligations can own up to the Department of Health and Human Services and expect favorable treatment. The Justice Department's antitrust division has a similar program it calls the Corporate Leniency Policy. And the Environmental Protection Agency (EPA) is shifting its emphasis from statutory enforcement to voluntary self-regulation.

This paper examines data from the EPA to determine whether it is more efficient, less costly, and just as effective to trust miscreant companies to turn themselves in as it is to chase them down. Between 1997 and 2003, nearly 3,500 company facilities voluntarily disclosed violations to the EPA — including illegal shipment of hazardous waste and failure to report toxic chemical emissions — and received reduced or waived penalties. The good news is that organizations freely disclosing their own misbehavior tend to become more compliant with government regulations in the future. However, the researchers also raise issues that might offset this rosy outcome. Self-disclosure could encourage broader leniency from inspectors who may feel more sympathetic to companies that appear to be honest. In addition, the impetus to confess might actually come from the threat of traditional enforcement activities, such as inspections and prosecutions. Another complication: Although self-policing appears to be a cheaper option, actually communicating incentives for disclosure to companies is costly.

Bottom Line: Self-reporting programs are popular because they are often more efficient and they appear to be less expensive than regulatory enforcement in catching wrongdoing by companies. But in many cases, their costs are higher than is recognized — and it's only the fear of old-fashioned prosecutorial methods that may provide the motivation for confession.

Offshoring Customer Satisfaction

Title: Does Offshoring Impact Customer Satisfaction?
Authors: Jonathan Whitaker (jwhitaker@richmond.edu), Mayuram S. Krishnan (mskrish@umich.edu), and Claes Fornell (cfornell@umich.edu)
Publisher: Self-published
Available Online:
http://ssrn.com/abstract=1010457

Companies tend to be attracted to offshoring, or outsourcing business activities to overseas locations, as a way to save money. But how does it affect customer satisfaction? To find out, the authors analyzed customer satisfaction scores for 154 North

Customers were unhappy with companies that offshored sales and customer service — but not with companies offshoring IT and HR.

American corporations and business units that offshored between 1998 and 2005. The data came from the American Customer Satisfaction Index produced by the National Quality Research Center at the University of Michigan. The results were generally not surprising. On the one hand, people were unhappy with companies that offshored front-office functions, such as sales and customer service, reflecting the fact that reaching a well-meaning but somewhat disconnected person in India when dealing with the frustration of a new appliance on the fritz almost never builds consumer loyalty and confidence that the situation will turn out right. On the other hand, customers were positively disposed toward companies offshoring back-office functions, such as IT, finance, and HR, perhaps because they had little direct contact with how these tasks were managed. Interestingly, consumers viewed front-office or back-office offshoring primarily as a harbinger of better or worse service but not as a precursor to lower prices — suggesting that companies may be cutting costs by offshoring, but they are not seen as passing on the savings to their customers.

Bottom Line: Offshoring should be viewed from many angles before it is embraced, including how it will affect customer attitudes toward the company. Cost savings could be more than offset by the loss of consumer favor.

Shamed and Able

Title: Shamed and Able: How Firms Respond to Information Disclosure
Authors: Aaron "Ronnie" Chatterji (ronnie@duke.edu) and Michael W. Toffel (mtoffel@hbs.edu)
Publisher: Harvard Business School, Working Paper No. 08-025
Available Online: www.hbs.edu/research/pdf/08-025.pdf

Social rating agencies such as Calvert and KLD Research & Analytics assess the social, environmental, and governance performance of organizations against a set of high-minded standards. These ratings cover all publicly traded companies and are increasingly popular among large and small investors who believe that a company's ethics and sense of global responsibility are as important as how much money it makes. But does such third-party monitoring encourage companies to act responsibly? The authors of this paper analyzed how firms responded to the disclosure of annual company ratings for poor environmental performance by KLD between 1999 and 2003. These ratings were compared with subsequent toxic chemical emissions data that firms are required by law to report to the U.S. Environmental Protection Agency.

The authors found that companies that were rated as polluters improved their environmental performance by reducing their emissions by an average of 27 percent below those of firms that were never rated. They also found that companies are more likely to clean up their act if they are both "shamed" by the release of negative information and "able to respond" because they know that they can easily rectify inefficient industrial processes.

Bottom Line: Social rating agencies can be quite effective in improving social and ethical standards of companies, particularly when these agencies identify low-cost ways to improve performance. +

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