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Recent Research

by Bridget Finn and Michal Lev-Ram

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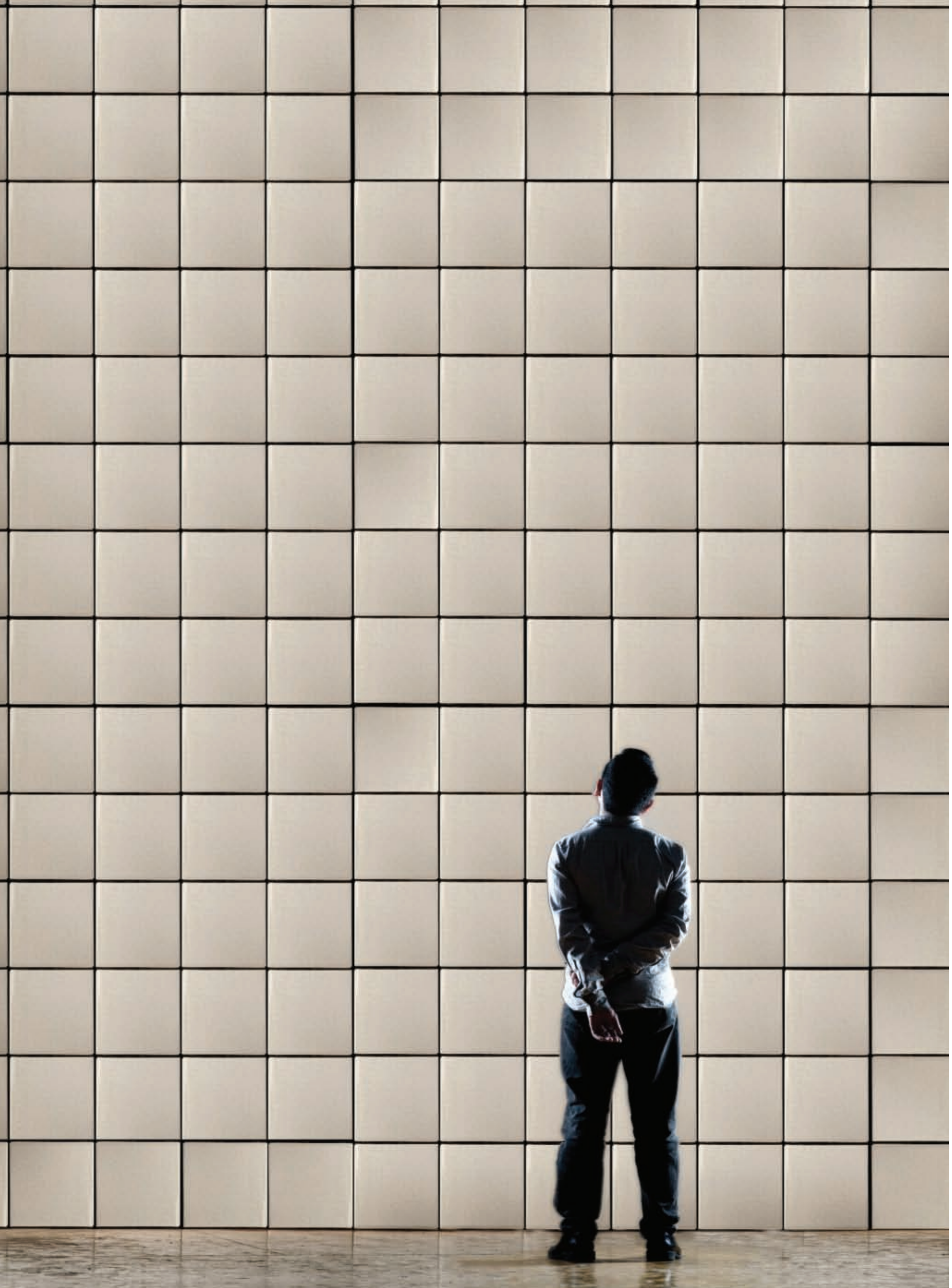

Photograph by Vern Evans

Recent Research

Consumer choice theory, outsourced labor standards, the secrets of competitive advantage, and more.

The Downside of Choice

Title: Great Expectations?! Assortment Size, Expectations, and Satisfaction
Authors: Kristin Diehl (kdiehl@marshall.usc.edu) and Cait Poynor (cpoynor@katz.pitt.edu)
Publisher: Self-published
Date Published: December 2008

In its ads, AutoTrader.com LLC claims to have nearly 3 million cars on its site for would-be buyers to sift through. Best Buy Company offers dozens of laptops for sale in its stores and via the Internet. These two retailers and many others operate on the assumption that consumers presented with a larger assortment of choices will be more likely to find what they want and presumably be more satisfied with their purchases. The authors of this paper argue that, in fact, consumers faced with too many options can feel overwhelmed and often end up dissatisfied.

Diehl and Poynor posited that as product choices increase, so do consumers' expectations of locating the product that meets their needs. To examine this hypothesis, several groups of undergraduate students were asked to select products for

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themselves or, in one experiment, to give to fictional co-workers. Some groups chose from a large selection of items, and others had a smaller batch from which to choose. In each experiment, individuals filled out a form to rate their level of satisfaction immediately after selecting their item. Those exposed to a greater variety of options were more critical of their choices than the participants given fewer choices.

The paper concludes with specific recommendations for marketers. One is to keep in mind that a streamlined list of offerings can minimize customer confusion. But if wide choice is part of a firm's competitive advantage, as it is with AutoTrader, it may help to tweak the advertising message, focusing less on the possibility that consumers can find the perfect match among millions of options, and more on the concept that the vast options provide the knowledge a consumer needs to make an educated choice.

Bottom Line: Customers are often dissatisfied with their purchases when faced with too many products or services to choose from, and companies should adjust their marketing plans accordingly.

Strategies for Improving Global Labor Practices

Title: Virtue out of Necessity? Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains
Authors: Richard Locke (rlocke@mit.edu), Matthew Amengual (amengual@mit.edu), and Akshay Mangla (amangla@mit.edu)
Publisher: MIT Sloan, Research Paper No. 4719-08
Date published: October 2008

Although most global corporations attempt to adhere to international labor standards, many of them find it difficult to ensure that their suppliers are meeting the same requirements. That is because the compliance programs of many multinational firms are ineffective; they rely on factory audits and the threat of sanctions to motivate suppliers. After studying a large U.S. apparel company whose garments are produced in more than 30 countries, and interviewing hundreds of factory owners, workers, union leaders, and U.S.-based senior executives, the authors of this study conclude that it is better to focus on joint problem solving and coaching than on inspections and intimidation.

Using factory audits from more than 1,000 suppliers, the authors found that although the apparel company was considered a leader in regulating offshore working conditions, it still had significant labor compliance problems. For example, 72 percent of its suppliers in East Asia had violated either health codes or overtime policies. But factories were rarely punished for failing to live up to labor standards, nor were they rewarded for meeting them. Moreover, because factory managers were reluctant to cooperate, it was difficult for inspectors to gather accurate information. These managers knew that the apparel company was unlikely to pull out if orders had already been placed, and they therefore had little incentive to change their practices.

However, the researchers found evidence that working conditions improved when the inspectors and the factory managers agreed to work together to address labor issues. In one instance, a Bangalore-based supplier's employees were considerably exceeding the state-mandated 60 hours per workweek, sometimes working seven days in a row. Instead of simply writing them up, a company auditor worked with the supplier's management to develop a plan to smooth out the production process and eliminate the need for excessive overtime. The cooperative approach to problem solving proved to be a more effective and cost-efficient way to engage factory managers in an ongoing dialogue about improving labor conditions.

Bottom Line: Existing labor codes don't do enough to ensure acceptable working conditions in the global supply chain. Instead of relying on factory audits and the threat of sanctions, companies should pursue an approach focused on cooperation and incentives.

Creating Competitive Advantage

Title: The Tipping Points of Business Strategy: The Rise and Decline of Competitiveness
Authors: David Lei (dlei@cox.smu.edu) and John W. Slocum (jslocum@cox.smu.edu)
Publisher: *Organizational Dynamics*
Date Published: Forthcoming

What makes Cisco Systems Inc. so adept at acquiring and integrating startups that specialize in cutting-edge technologies? How did Apple Inc., with no experience in making digital music players and with a legacy computer business to maintain, become the world's dominant digital music company? In this paper, the authors explore the types of strategies that very different companies can adopt to successfully evolve and maintain a competitive advantage over their rivals.

For example, Cisco is renowned for its ability to acquire innovative young companies that help it stay at the forefront of technological advances. To do this, Cisco gives newly bought companies significant autonomy, so they can behave like startups while drawing on Cisco's corporate resources. Eventually, the leaders of many of these acquired firms occupy key management positions within Cisco, providing the know-how and experience to compete in new markets. Similarly, Apple had the foresight to secure long-term licensing agreements with major record labels, enabling it to create the iTunes music service and sell individual songs; in turn, Apple sold more iPods.

The authors have created a matrix to help managers develop a strategy that best fits their company's culture and capabilities. They separate companies into four types: innovative startups (pioneers), acquisitive market leaders (consolidators), rapidly evolving companies (concept learners), and cutting-edge firms (concept drivers). For each, the authors examine the best way to enter a new market, whether by making acquisitions, pursuing internal product development, or licensing technology from other firms. They also look closely at the ways in which companies frequently fail; for example, by relying too heavily on a product that's nearing the end of its life cycle or underestimating the importance of a disruptive new technology.

Bottom Line: Understanding the advantages and disadvantages of a company's capabilities can help management determine the best course for establishing a competitive advantage.

The Value of Intelligent Hiring Practices

Title: The Consequences of Human Resource Stocks and Flows: A Longitudinal Examination of Unit Service Orientation and Unit Effectiveness
Authors: Robert E. Ployhart (ployhart@moore.sc.edu), Jeff A. Weekley (jeff.weekley@kenexa.com), and Jase Ramsey (jaseramsey@gmail.com)
Publisher: *Academy of Management Journal*, vol. 52, no. 5
Date Published: Forthcoming (October 2009)

In the retail business, where it's not uncommon for nearly three out of four workers to leave after just a few months on the job, searching for the perfect employee may seem like a futile exercise. But after examining the applications and subsequent performance of more than 114,000 store employees at a major U.S. retailer, the authors of this paper argue that hiring practices and employee training programs can in

By spending more time and resources screening employees, the retailer placed people in positions that matched their skills.

fact have a significant effect on overall sales.

The retailer had a rigorous hiring process — in addition to an employment application, each new staff member filled out an orientation survey that allowed the company to gauge such factors as educational success, emotional stability, and agreeableness — and the researchers clearly correlated better test scores with store success. Stores staffed with higher-skilled workers averaged about US$4,000 more in sales per employee each quarter than stores with lower-skilled workers. One reason these stores performed so well, the authors contend, is that by spending additional time and resources screening employees during the hiring process, the retailer was able to place people in positions that matched their skills. That, in turn, produced better customer satisfaction and increased store profitability.

Bottom Line: Intelligent hiring practices can contribute to increased sales. Companies, even those with high turnover, should institute rigorous guidelines to ensure they are choosing the best applicants for their jobs.

How Competition Affects Organizational Structures

Title: The Flattening Firm and Product Market Competition: The Effect of Trade Liberalization
Authors: Maria Guadalupe (mg2341@columbia.edu) and Julie M. Wulf (jwulf@hbs.edu)
Publisher: Harvard Business School, Working Paper No. 09-067
Date published: October 2008

For years, researchers have watched as U.S. corporations shed organizational layers, giving new responsibilities to junior managers while flattening corporate hierarchies. Although the reasons for this trend are still being debated, the authors of this paper, by studying hundreds of U.S. manufacturing firms, identified one potential cause. They believe that increased competition as a result of the liberalization of global trade policies may be responsible for the flattening of U.S. manufacturing companies.

To measure how expanded trade affects organizational structure, the authors analyzed the Canada–United States Free Trade Agreement of 1989, which governs one of the largest trading relationships in the world. They studied more than 10 years of data — including job descriptions, reporting relationships, and levels of senior and middle management positions at more than 300 publicly traded U.S. companies — from periods both before and after the agreement. To measure "flatness," the researchers examined how many managers reported directly to the CEO and how many layers of management separated the CEO and a division manager, the lowest management position most commonly found across all the studied firms. On average, they found that between 1989 and 1999 the firms in the sample increased the number of managers reporting to the CEO by 0.32 positions and decreased the layers of management between the CEO and division manager by 0.15 positions. Moreover, companies in traditionally high-tariff industries (which faced an influx of competition after the passage of free trade agreements) flattened more than those in low-tariff industries. Although the authors did not look directly at how cutting layers and increasing the chief executive officer's span of control affected profitability, they did notice that these changes were put in place to improve response times by decentralizing decision-making authority and empowering lower-level managers.

The research also showed that a reduction in organizational layers was not simply a cost-cutting effort on the part of companies facing increased competition. In fact, the pay of division managers and those in other management positions increased, as organizations attempted to reward and retain key managers.

Bottom Line: Increased competition following trade liberalization leads to flatter firms, as companies look to increase their responsiveness to new competitive threats.

Further Proof That People Are Not Computers

Title: Cognitive Constraints on How Economic Rewards Affect Cooperation
Authors: Ellen E. Furlong (furlong.22@osu.edu) and John E. Opfer (opfer.7@osu.edu)
Publisher: *Psychological Science*, vol. 20, no. 1
Date Published: January 2009

Understanding how the brain processes numerical information can provide valuable insights for marketers, contract negotiators, and executives. In this paper, the authors highlight an interesting quirk in human perception: People tend to value multiple-digit numbers more than numbers with fewer digits (for example, 300 cents vs. $3), even if the underlying economic value is exactly the same.

In a series of experiments, the authors asked a group of undergraduate students to engage in a test known as the Prisoner's Dilemma, in which participants are given different rewards for working with or against other participants. When the students were offered 300 cents if they would work together, up from the original offer of 3 cents, cooperation rates went up considerably. But when the reward was increased from 3 cents to $3, despite the same increase in value, cooperation rates did not increase. Finally, supporting their hypothesis that people unconsciously put the greatest emphasis on numerical value, the researchers saw an increase in cooperation when participants were offered 300 cents, after first being offered $3.

Bottom Line: People unconsciously place more emphasis on numbers that have more digits, even when the economic value is the same or less. Executives and marketers can use this knowledge to help them create smart pricing strategies or emphasize value more effectively in marketing campaigns. ✚

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