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Journals

José M. Campa - Linda Goldberg
 "Exchange-rate pass-through into import prices", *Review of Economics and Statistics*, Vol. 87, No 4, November 2005, pages 679-690.

Abstract: This paper presents an empirical analysis of transmission rates from exchange rate movements to import prices, across countries and product categories, in the euro area over the last fifteen years. Our results show that the transmission of exchange rate changes to import prices in the short run is high, although incomplete, and that it differs across industries and countries; in the long run, exchange rate pass-through is higher and close to one. We find no strong statistical evidence that the introduction of the euro caused a structural change in this transmission. Although estimated point elasticities seem to have declined since the introduction of the euro, we find little evidence of a structural break in the transmission of exchange rate movements, except in the case of some manufacturing industries. And since the euro was introduced, industries producing differentiated goods have been more likely to experience reduced rates of exchange rate pass-through to import prices across euro-area countries.

José M. Campa - José M. González
 "Differences in exchange rate pass-through in the euro area", *European Economic Review*, Vol. 50, No 1, January 2006, pages 121-145.

Abstract: This paper focuses on the pass-through of exchange rate changes into the prices of imports into euro area countries from countries outside the euro area. Using data on import unit values for 13 different product categories for each country, we estimate industry-specific rates of pass-through across and within countries for all euro members.

In the short-run, pass-through rates differ across industries and countries and are less than one. In the long-run neither full pass-through nor equality of pass-through rates across industries and countries can be rejected. Differences exist across euro area countries in the degree to which common exchange rate movements get transmitted into consumer price and production cost indices. Most of these differences in transmission rates are due to each country's different degree of openness to non-euro area imports rather than to the heterogeneity in the structure of imports.

Bruno Cassiman - Reinhilde Veugelers
 "In search of complementarity in innovation strategy: Internal R&D and external knowledge acquisition", *Management Science*, Vol. 52, No 1, January 2006, pages 68-82.

Abstract: Empirical research on complementarity between organizational design decisions has traditionally focused on the question of existence of complementarity. In this paper, we take a broader approach to the issue, combining a "productivity" and an "adoption" approach, while including a search for contextual variables in the firm's strategy that affect complementarity. Analysis of contextual variables is not only interesting per se, but also improves the productivity test for the existence of complementarity. We use our empirical methodology to analyze complementarity between innovation activities: internal research and development (R&D) and external knowledge acquisition. Our results suggest that internal R&D and external knowledge acquisition are complementary innovation activities, but that the degree of complementarity is sensitive to other elements of the firm's strategic environment. We identify reliance on basic R&D—the importance of universities and research centers as an information source for the innovation process—as an important contextual variable affecting complementarity between internal and external innovation activities.



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Javier Estrada

"Downside risk in practice", *Journal of Applied Corporate Finance*, Vol. 18, No 1, February 2006, pages 97-105.

Abstract: The concept of risk is perhaps the most elusive concept in finance. However, it is safe to say that although investors associate risk with negative outcomes and downside fluctuations, modern portfolio theory unfortunately does not. This article discusses the concept of downside risk, two ways to measure it, the detailed estimation of both measures, and the calculation of required returns and risk-adjusted returns in a downside risk framework.

Johanna Mair - Ignasi Martí

"Social entrepreneurship research: A source of explanation, prediction, and delight", *Journal of World Business*, Vol. 41, No 1, February 2006, pages 36-44.

Abstract: Social entrepreneurship, as a practice and as a field of scholarly investigation, provides a unique opportunity to challenge, question, and rethink concepts and assumptions from different fields of management and business research. This article puts forward a view of social entrepreneurship as a process that catalyzes social change and addresses important social needs in a way that is not dominated by direct financial benefits for the entrepreneurs. Social entrepreneurship is seen as differing from other forms of entrepreneurship in that a relatively higher priority is given to promoting social value and development as opposed to capturing economic value. To stimulate future research the authors introduce the concept of embeddedness as a nexus between theoretical perspectives for the study of social entrepreneurship.

Domènec Melé - Patricia Debeljuh - M. Cecilia Arruda

"Corporate ethical policies in large corporations in Argentina, Brazil and Spain", *Journal of Business Ethics*, Vol. 63, No 1, January 2006, pages 21-38.

Abstract: This paper examines the status of Corporate Ethical Policies (CEP) in large companies in Argentina, Brazil and Spain, with a special emphasis on Corporate Ethics Statements (CES), documents that define firms' philosophy, values and norms of conduct. It is based on a survey of the 500 largest companies in the three sample countries. The findings reveal many similarities. Among other things, it emerges that most companies give consideration to ethics in business and have adopted some kind of formal or informal ethical policies. Regardless of whether or not they have a CES, companies agree that ethical conduct must be taken into account when selecting, appraising and promoting personnel, as an important ethical policy. There is a growing tendency to draw up formal corporate ethics documents. These documents are perceived, first and foremost, as supporting the development of corporate culture. Most respondents believe that primary responsibility for ethical issues in the company rests with the CEO. Finally, the findings indicate that most companies that

devote more resources to communicating and implementing CESs have two or more formal ethics documents. The main differences between the countries included in the study concern the emphasis given to specific aspects, such as avoiding misconduct or taking ethical criteria into account when selecting personnel. The emphasis is greatest in countries where corruption seems most prevalent.

Alejo J. Sison - Joan Fontrodona

"Ethical aspects of e-commerce: Data subjects and content", *International Journal of Internet Marketing and Advertising*, Vol. 3, No 1, February 2006, pages 5-18.

Abstract: This paper reflects on ethical challenges posed by internet commerce, with special emphasis on those involving the content and information users. It discusses the main ethical issues in e-commerce, including security, privacy, identity and nonrefutability of transactions. It proposes measures which both government and the private sector can adopt to address these issues on different levels. Finally, the paper reflects on the creation of value by leveraging trust and proposes two universal principles to be upheld in internet commerce: online-offline consistency and technological neutrality.

Books

Brian Leggett

"Developing your persuasive edge. The key to your communication success in business", *Eunsa*, February 2006, 252 pages.

Abstract: This book is about persuasion. It is about improving our persuasive edge in our everyday business. All of us would like to be more persuasive in our presentations and interpersonal exchanges. Have you ever looked round with envious eyes at your colleagues who seem quite effortlessly to get the cooperation of others? Have you ever had that experience of wanting others to do as you asked without too much questioning? Our traditional approach to getting other people's cooperation - forceful, assertive, and direct - isn't always the best option. Charles Handy often quotes that, "A career is now not so much a ladder of roles, but a growing reputation for making things happen". This is what persuasion is all about. Directness and authority is not enough today; we must be able to persuade our colleagues, bosses and clients to cooperate with us.

Perhaps you attend a meeting to try to convince your boss of a proposed project. Your arguments impress, your data is accurate, your logic is unassailable, yet you find your proposal has been tabled. What went wrong? This book explains how to avoid this situation by being persuasive in work presentations, in speeches and in informal and formal verbal exchanges.

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The theoretical basis behind this book is Aristotle's three dimensions of rhetoric –ethos, pathos and logos– and Cicero's five canons – invention, arrangement, style, memory and delivery. With these tools we can develop our knowledge and practice of persuasion within a business setting.

Contributions to books

José M. Campa

"Multinational investment under uncertainty in the chemical processing industry", in the book "Real options and international investment", edited by Alan M. Rugman and Jing Li, *Edward Elgar Publishing*, December 2005, pages 98-119.

Abstract: This study uses the example of industrial chemical processes to evaluate the effect of two types of uncertainty on the decision to invest in an industry. It analyzes the effects of relative price uncertainty on the probability of expansion in a particular country. The study then focuses on the behavior of individual companies, and classifies companies according to whether or not they are multinational producers of their product. The results confirm previous evidence that exchange rate uncertainty has a negative effect on capacity expansion by domestic corporations and no effect on investment by multinational corporations. Finally, the study also shows that expansion of production capacity in the chemical industry is most likely to occur in countries where capacity utilization is highest.

Domènec Melé

"Religious foundations of business ethics", in the book "The accountable corporation", Vol. 2, edited by Marc J. Epstein and Kirk O. Hanson, *Praeger Publishers*, London, January 2006, pages 11-43.

Abstract: The chapter begins by giving several reasons for discussing the religious foundations of business ethics. It then presents an overview of eight great religions, their ethical bases and, very broadly, what each has to say about business ethics. The study includes the three great monotheistic religions (Judaism, Christianity and Islam) and religions based on ancient Asian cultures (Hinduism, Buddhism, Confucianism, Taoism, and Shinto). Many differences can be found among these religions, but if one explores them in any depth, some common values can be uncovered.

Steven Poelmans - Barbara Beham

"La gestión del equilibrio entre el trabajo y la familia", in the book "Dirección estratégica de personas. Evidencias y perspectivas para el siglo XXI", edited by Jaime Bonache and Angel Cabrera (2nd edition), *Palgrave*, January 2006, pages 463-496.

Abstract: En este capítulo se presentan las políticas y prácticas de recursos humanos destinadas a facilitar el equilibrio entre vida laboral y vida familiar en las organizaciones. Para garantizar que la revisión de estas políticas y prácticas no se quede en un ejercicio teórico, sino que también resulte útil a los profesionales (por ejemplo, directores de recursos humanos, asesores o consultores) que deben decidir si recomendar o aplicar una política de este tipo, se exponen los *inputs*, costes y beneficios asociados a distintas categorías de política de armonización vida laboral-vida familiar, utilizando la teoría del proceso de decisión respecto al trabajo y la familia (Poelmans, 2005) como marco general. El capítulo enumera políticas de recursos humanos destinadas a mejorar el equilibrio entre vida laboral y vida familiar, y revisa sus puntos fuertes y débiles utilizando el lenguaje de la teoría del proceso de decisión. Por último, se señalan las dificultades que las empresas pueden experimentar a la hora de implantar estas políticas y prácticas.

Juan Roure - Amparo San José

"The university-based model: IESE Business School and the founding of an Angel Network in Spain", in the book "Latin American angel investing", edited by Felipe Vergara, Raul Rivera, Elizabeth O'Halloran, *Darden Business School, Batten Institute*, February 2006, pages 219-229.

Abstract: In a mature angel market such as the United States, angel groups grow spontaneously from business angels' attempts to facilitate, intensify, and diversify their investment activities. Elsewhere, the angel market does not work so smoothly. In Europe, there have been efforts to develop the market for informal investing and increase its efficiency by building networks. This chapter presents IESE's unique experience in creating a business angel network within a business school and on the basis of a pioneering business angel program.

Patricia H. Werhane, Rama Velamuri - D. Eric Boyd

"Corruption and moral risk in business settings", in the book "The accountable corporation", Vol. 2 of "Business ethics", edited by Marc J. Epstein and Kirk O. Hanson, *Praeger Publishers*, December 2005.

Abstract: In this chapter, we address two related questions: What is corruption? and What is wrong with it? We then explore the concept of moral risk (not to be confused with moral hazard), and how it can illuminate the decision making processes of economic agents faced with corrupt transactions. Finally, we propose how entrepreneurs and managers can practice constructive engagement to deal with corruption. To set the scene, we start off by presenting two case studies of entrepreneurs who chose to resist corruption in spite of operating in environments where it was widespread, and a third case that raises the question of when, and how, a multinational company (MNC) should engage in business in an environment with widespread corruption.



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R. Edward Freeman – Rama Velamuri

"A new approach to CSR: Company Stakeholder Responsibility", in the book "Corporate social responsibility (CSR): Reconciling aspiration with application", edited by Andrew Kakabadse and Mette Morsing, *Palgrave Macmillan*, January 2006, pages 9-23.

Abstract: In this paper, we propose to replace "corporate social responsibility" with "company stakeholder responsibility". This is not just semantics, but a new interpretation of the very purpose of CSR. "Company" signals that all forms of value creation and trade and all businesses, from start-ups to large publicly held corporations, need to be involved. "Stakeholder" suggests that the main goal of CSR is to create value for key stakeholders and fulfil our responsibilities to them. And "Responsibility" implies that we cannot separate business from ethics. We will argue that taking a stakeholder approach to business is ideally suited to integrate business, ethics and societal considerations. Stakeholder theory is about value creation and trade –it is a managerial theory about how business works. It asks both business and ethics questions about each stakeholder relationship.

IESE – Working Papers

NOTE: Working papers may be consulted on the Internet at http://wwwapp.iese.edu/research/res_search_adv.asp?lang=en

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Miguel A. Rodríguez – Franc Ponti – Silvia Ayuso

THE "SPONGE" ORGANISATION: A CREATIVITY-BASED REFLECTION ON THE INNOVATIVE AND SUSTAINABLE FIRM

Abstract: Nowadays, many companies striving for sustainability have developed new and effective communication channels with their stakeholders and, at the same time, successful innovation strategies. However, stakeholder engagement and innovation tend to be managed as parallel rather than interconnected activities within companies, and any link between them seems to be informal and tacit. The aim of this paper is to gain a deeper understanding of how companies' relationship with the environment can be harnessed for sustainable innovation. Given the scant experience of companies linking stakeholder dialogue and sustainable innovation, we decided to adopt an original and innovative research method based on gathering a group of managers from different companies and stimulating their imagination using creativity techniques. In this paper, we first describe the creative research method we used to explore how businesses can integrate stakeholder insights into the process of organisational innovation. Then we present the result of our research experiment: the model of the "sponge" organisation. Based on the experience and intuitively stimulated ideas of the project participants, we propose a definition –a list of values and principles, and important "hard" and "soft" attributes– of the ideal enterprise, i.e., one that uses its relationship with the

environment as an essential innovation factor. Finally, we discuss the implications of this business concept and compare it with existing management literature.

IESE – Studies and Monographs

NOTE: Studies may be consulted on the Internet at http://wwwapp.iese.edu/research/res_search_adv.asp?lang=en

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Claudia Thurner – Christian Seelos – Johanna Mair

WASTE CONCERN

Abstract: This study introduces an innovative and inclusive approach to environmental and social problems. Dhaka, the capital of Bangladesh, suffers from intense solid waste generation, posing a threat to citizens' health and the environment. Waste Concern, a research-based NGO, realized that the solid waste had a 76% organic content and so started to produce and sell organic compost made from the portion of waste formerly perceived to be of no value. Using a house-to-house collection service, Waste Concern collects the organic residuals directly from households and converts them into compost in decentralized composting plants. The compost is then distributed via the network of a local chemical fertilizer producer. As a result, Waste Concern has created jobs for unskilled workers and reduced the total amount of solid waste to be handled by the municipality, while its compost has helped to improve soil quality –a win-win situation for all stakeholders. More recently, Waste Concern has also started a project under the Clean Development Mechanism (CDM) of the Kyoto Protocol and receives further revenue from this source.

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Christian Seelos – Johanna Mair

BRAC - AN ENABLING STRUCTURE FOR SOCIAL AND ECONOMIC DEVELOPMENT

Abstract: This study introduces and analyzes BRAC, the world's largest non-governmental organization, which pursues the dual objective of poverty alleviation and empowerment of the poor. Having started out in 1972 as an almost entirely donor-funded, small-scale relief and rehabilitation project to help the country overcome the devastation and trauma of the Liberation War, BRAC has developed into an exemplary, independent and largely self-financed organization for sustainable development.



Other publications

José M. Campa

"Una valoración de los procesos de fusión en el sector financiero europeo", *Boletín Económico del Banco de España*, February 2006.

Abstract: Este artículo ofrece un análisis del impacto de las operaciones de fusión y adquisición en el sector financiero dentro de la Unión Europea en el período transcurrido desde la introducción de la moneda única, adoptando una doble aproximación. En primer lugar, al analizar la reacción del mercado ante los anuncios de fusión, en la muestra considerada se aprecia que los accionistas de las empresas compradas obtienen, en promedio, excesos de rendimiento positivos. Por el contrario, los accionistas de las empresas compradoras obtienen, en promedio, excesos de rendimiento negativos, aunque no son estadísticamente significativos. Esta evidencia indica que se produce una transferencia de valor desde los accionistas de las empresas compradoras a los de las empresas adquiridas, resultado que está en línea con la evidencia habitual en la bibliografía. En cuanto a los excesos de rendimiento conjuntos de los procesos de fusión, obtenidos ponderando los excesos de rendimiento de las empresas involucradas por sus respectivas capitalizaciones bursátiles, la evidencia obtenida apunta a que son, en general, modestos y en ningún caso significativos.

Toni Dávila - Marc J. Epstein - Sharon Matusik

"Medir la innovación para mejorar los resultados", *Iniciativa Emprendedora*, No 49, October-December 2005, pages 63-77.

Abstract: Muchas empresas dedican anualmente miles de millones de dólares a la investigación y el desarrollo. Sin embargo, frecuentemente la alta dirección percibe que esta inversión no se refleja en los resultados y busca fórmulas más eficaces para su estrategia de innovación. Pero esta estrategia está estrechamente ligada a cómo los directivos utilizan las diferentes mediciones para evaluar sus resultados.

Philip G. Moscoso

"La externalización, una herramienta estratégica clave", *Executive Excellence*, No 29, February 2006, pages 38-41.

Abstract: La externalización se ha convertido definitivamente en una herramienta estratégica clave. La pregunta ha dejado de ser si externalizar o no, y ha pasado a ser qué y cómo externalizar. No obstante, muchas empresas todavía no consiguen sacarle todo el provecho posible, porque siguen limitándose a buscar sólo el ahorro de costes a corto plazo, sin molestarse en desarrollar una verdadera estrategia de externalización.

José R. Pin

"Estudio sobre la gestión empresarial en los últimos dos años", *Finanzas & Banca*, No 105, January 2006, pages 38-40.

Abstract: El artículo describe los resultados de la encuesta 2004/2005 de Burson-Masteller e IRCO/IESE. El sondeo sobre altos directivos españoles indica que los CEO's son uno de los activos más importantes de la compañía. Igualmente indica la preocupación de los directivos sobre la estructura autonómica del país y la necesidad de mejorar la productividad de las empresas españolas en las que se observa un descenso de competitividad, tanto en el mercado interno como en su sector exterior.

Ahmad Rahnema - Jorge Soley

"Basilea II: El riesgo operacional en las entidades financieras", *Estrategia Financiera*, No 224, January 2006, pages 14-24 (IESE, technical note FN-537).

Abstract: El artículo está destinado a explicar el concepto de riesgo operacional en las entidades financieras. Este nuevo concepto ha sido incorporado por Basilea II como un nuevo requerimiento en el cálculo de los fondos propios de estas entidades para lograr un sistema financiero más solvente.

Por riesgo operacional se entiende: "El riesgo de pérdidas resultado de procesos internos inadecuados y/o erróneos, personas, sistemas o sucesos externos".

Los resultados de las empresas, y no sólo las financieras, se ven afectados reiteradamente por los riesgos operacionales a los que están sometidas. También se desarrolla la modelización de riesgo operacional tanto desde el punto de vista cualitativo como cuantitativo.

La asunción de riesgo operacional y su gestión en las empresas financieras y en las que no lo son, debería impulsar un cambio cultural en las organizaciones que mejore sus procesos y su transparencia.

Jaume Ribera - Rena Eichler - Bill Savedoff

"Adquisición estratégica en Haití para mejorar los sistemas sanitarios: ¿Por qué pagar por inversiones cuando se puede pagar por resultados?", *Estrategia Financiera*, No 225, February 2006, pages 34-43 (IESE, case P-1043).

Abstract: Responsabilizar a las instituciones de salud de la consecución de objetivos relacionando el pago a los resultados obtenidos, puede ser una potente estrategia para mejorar la eficacia de un sistema de salud. El director de un proyecto patrocinado por USAID, que financia la ONG en Haití para la provisión de atención primaria básica, utiliza la compra estratégica para mejorar la eficiencia del sistema mediante el pago por resultados. El sistema de pago a los proveedores consistía en cubrir los gastos hasta un límite. El nuevo sistema establece metas de cobertura y retiene una porción del presupuesto histórico, permitiendo a los proveedores recuperar esta retención más un bono adicional si se cumplen las metas. El resultado ha sido un



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incremento de la tasa media de cobertura de vacunación desde el 46% a más del 70% en tan sólo un año. Se presenta el proceso de diseño e implementación de este sistema de reembolso basado en resultados desde el punto de vista del comprador estratégico.

Josep M. Rosanas

"Continuidad de la empresa, indicadores de gestión e incentivos", *Iniciativa Emprendedora*, No 49, October-December 2005, pages 119-127.

Abstract: Remuneraciones desorbitadas y escándalos son posiblemente los dos problemas más importantes de los últimos años en relación con el comportamiento de los directivos. De hecho, estos dos aspectos han dado al traste con algunas de las más importantes empresas del mundo. Si la continuidad de las empresas ha tenido que enfrentarse a la gestión, ahora debe hacerlo también a los dos problemas mencionados.

Jorge Soley

"Productos financieros al servicio de la empresa", *e-Deusto*, No 46, December-January 2006, pages 30-34.

Abstract: La financiación especializada no se comercializa habitualmente por los canales de distribución bancarios convencionales por su carácter de servicio en lugar de producto financiero o por su complejidad operativa.

Guido Stein

"Peter Drucker: Sobre empresa y sociedad", *Nuestro Tiempo*, No 618, December 2005, pages 62-73.

Abstract: En este artículo el autor introduce los pensamientos más relevantes de Peter Drucker sobre el entorno social y económico en el que desarrollan su trabajo directivos y empleados de las empresas. Valgan dos muestras: "Hoy las organizaciones ya no se construyen sobre la fuerza. Cada vez más se levantan sobre la confianza". "Una organización está enferma cuando está más preocupada por evitar errores que por asumir riesgos".

"Peter Drucker: Dirigir es dirigir personas", *Capital Humano*, No 195, January 2006, pages 46-51.

Abstract: Peter Drucker es considerado como el profeta del *management por excelencia*, faceta que cubre una amplia parte de su producción intelectual, pero que no es la única. En este artículo se abordan las raíces intelectuales de Drucker y el impacto que esas raíces tienen en sus obras tanto de *management* como de filosofía política, economía, sociología, incluso de ficción, pues escribió tres novelas. Hay una constante fácil de rastrear: la preocupación orientada hacia el desarrollo de las personas y a la función directiva como elemento clave del desarrollo empresarial.

"El poder en las organizaciones", *Harvard Deusto Business Review*, No 142, January 2006, pages 44-52.

Abstract: Se dice que los gobiernos son organizaciones, pero suele olvidarse que las organizaciones también son gobiernos. El poder en las empresas tiene mucho que ver con el poder político. Hablar de empresa es reconocer que unas personas dependen necesariamente de otras, puesto que nadie controla todas las condiciones necesarias para el logro de una acción y del resultado que la trasciende.

"El directivo eficaz", *Nueva Revista*, No 103, January-February 2006, pages 165-171.

Abstract: En este artículo se analizan las características que hacen a un directivo acreedor del calificativo de eficaz, empezando porque ninguna empresa se puede permitir el lujo de privarse de la inteligencia, imaginación e iniciativa del 90% de las personas que trabajan en ella. La eficacia, como toda otra competencia, es decir, hábito, se adquiere con el ejercicio previo de lo que hay que hacer. La paradoja sólo es aparente.

"Lo mejor de Peter Drucker sobre marketing e innovación", *Harvard Deusto Marketing y Ventas*, No 72, January-February 2006, pages 75-79.

Abstract: Peter Drucker se adelantó muy a menudo a los modelos de gestión del conocimiento en las empresas del futuro. La innovación es esencialmente un método para identificar lo nuevo que es posible y el modo de alcanzar, aceptando y creando riesgos que reemplazan el azar y la fortuna.

Ignacio Urrutia - Scott Eriksen

"COSO: El marco integrado de control interno de la Ley Sarbanes & Oxley", *Estrategia Financiera*, No 225, February 2006, pages 14-18.

Abstract: La Sarbanes-Oxley Act (SOA) del año 2002 se ha redactado con la intención de recuperar la confianza de los inversores en los estados financieros después de los numerosos escándalos contables de los últimos años. La sección 404 de la SOA ha transformado en parte el proceso contable debido a que exige que las empresas cuenten con una serie de gestores que puedan, en primer lugar, evaluar y reportar el control interno del informe financiero, y en segundo lugar, enviar dicho informe a los auditores externos para su auditoría. Esos gestores deben además explicar el marco de trabajo usado para evaluar y reportar acerca del control interno. El marco de trabajo integrado de control interno (COSO) está específicamente citado por el SEC (Security and Exchange Comisión) como el apropiado; este marco de trabajo es una herramienta de auditoría diseñada para ayudar en la evaluación de los controles internos, que puede ser vista como si de un cubo tridimensional se tratara, en la que una dimensión se refiere a los objetivos, la segunda se refiere al área de focalización, y la tercera a los componentes del control interno.



Conferences and Seminars

Toni Dávila

On January 6-7, attended, in Clearwater Beach, Florida, the Management Accounting Section Midyear Meeting, organized by the American Accounting Association, where he presented the paper "Early-stage startup companies: The role of management accounting in the evolving portfolio of management control systems", co-authored by George Foster.

Abstract: This paper uses a multi-method, multi-case field research design to study the evolving portfolio of the management control systems (MCSs) of 78 early stage startup companies. We examine 46 individual systems from eight different MCS-categories –financial planning, financial evaluation, human resource planning, human resource evaluation, strategic planning, product development, sales/marketing, and partnerships. We report analysis of: 1) The speed of adoption of management accounting systems (financial planning and financial evaluation) vis-à-vis six other MCS categories. Financial planning is the most widely adopted MCS category at an early stage, followed by the human resource planning and strategic planning categories. 2) Variables associated with the rate of management control system adoption. Our results indicate that number of employees, presence of venture capital, and time to revenue are positively associated with the rate of adoption. Furthermore, the rate of adoption simultaneously affects company size. 3) The sequencing of adoption of financial planning systems vis-à-vis the adoption of strategic and human resource planning systems. 4) Performance implications of the rate of adoption of management control systems. In support of the often argued differences between entrepreneurs and managers leading to CEO replacement at this transition point, we find that CEOs that have adopted fewer MCS systems have shorter tenures. We also find evidence consistent with the association between company valuation and the adoption of management control systems. This result is consistent with venture capital investors placing high value on management control systems in their startup company investment decisions and in their investee-company monitoring decisions.

Domènec Melé

On February 16-18, attended, in Madrid, the II Jornadas organized by the Asociación Española de Personalismo, where he presented the paper "La empresa como comunidad de personas. El pensamiento de K. Wojtyla contrastado con otras visiones de la empresa".

Abstract: La comunicación considera las posibilidades de la filosofía de K. Wojtyla, y más en concreto su concepto de comunidad de personas como concepto clave para entender la empresa. Muchos de los planteamientos actuales sobre la empresa suelen partir de visiones del hombre que lo reducen a un ser con preferencias, un mero recurso productivo o un elemento despersonalizado dentro de un colectivo laboral. En cambio, el

pensamiento de K. Wojtyla considera el hombre como persona, ser único e irreplicable, que se trasciende a sí mismo y está llamado a formar comunidades de personas, donde se respeta la dignidad y derechos innatos de cada persona y se favorece el desarrollo humano. Se concluye afirmando el mayor realismo y calidad ética de la visión wojtyliana respecto a los modelos convencionales de empresa.

Ramon O'Callaghan - Rafael Andreu

They received the Best Paper Award in the Knowledge Management track of the 39th HICSS International Conference on System Sciences held in Hawaii on January 4-7, for their paper "Knowledge dynamics in regional economies: A research framework". The Conference Proceedings are published by IEEE Computer Society Press, 2006.

Abstract: This paper addresses challenges associated with the dynamics of knowledge in clusters and regional networks. It develops a conceptual framework, a methodology and a research agenda. The focus is on mapping and analyzing clustered firms and their linkages. Network analysis is proposed to find patterns of knowledge transfer and learning that differ according to firms' absorptive capacities and the nature of the involved knowledge flows. System dynamics modelling is then put forward in order to analyze within-cluster interactions as a series of knowledge stocks and knowledge flows. The goal is to assess the sustainability and stability of the cluster from a knowledge perspective (e.g. virtuous learning patterns), the effects of ICT on knowledge flows, and overall cluster performance. The paper provides a new perspective and a methodological approach to understand the dynamics of innovation in clusters and regional economies, and derive policy implications.

Fernando Peñalva

On February 17, attended the ISCTE Business School in Lisbon, where he presented the paper "Cost of equity and accounting conservatism", co-authored by Juan Manuel García Lara (Universidad Carlos III de Madrid) and Beatriz García Osma (Lancaster University and Universidad Autónoma de Madrid).

Abstract: High quality accounting information is expected to lower the cost of equity capital by reducing perceived risk, increasing liquidity and reducing transaction costs. Consistent with this argument, prior empirical evidence documents a negative relation between cost of equity and several measures of financial information quality (timeliness and persistence of earnings, accrual quality, predictability, smoothness, and value relevance). However, there is scarce research analyzing the relation between accounting conservatism and cost of equity capital. Francis et al. (2004) find that conservatism does not have an effect on the cost of equity. In this paper, we show that this a priori surprising result is driven by the inability of the firm-level proxy of conservatism chosen by Francis et al. to capture conservatism. Using a portfolio approach to measure conservatism, we find that conservatism in its different flavors (in the income statement, as asymmetric recognition



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of good and bad news; and in the balance sheet, as persistent understatement of assets) exhibits a robust negative association with proxies of the ex ante cost of capital, after controlling for known risk factors and innate determinants of this earnings attribute.

Doctoral theses

NOTE: Doctoral theses may be consulted on the Internet at http://www.wapp.iese.edu/research/res_search_adv.asp?lang=en

Adrian Done

THE EVOLVING SUPPLY CHAIN: AN EMPIRICAL INVESTIGATION OF THE IMPACT OF KNOWLEDGE DIMENSIONS IN MANUFACTURING AND SERVICE SUPPLY CHAINS

(London Business School)

Abstract: This thesis aims to go some way to answering this question, by undertaking an empirical investigation of two major evolutionary issues emanating from the literature: 1) the increasing importance of managing knowledge in supply chains and 2) the application of supply chain practices beyond manufacturing –into services.

Existing supply chain literature largely focuses on asset and information elements of exchange between supply chain partners in manufacturing contexts. Yet the exchange and management of knowledge is not so well understood, despite its increasing importance as more complex business dynamics shift towards competing supply chains. The above issues are developed through a synthesis of the supply chain literature, and are analysed by adopting perspectives from knowledge management and service operations research streams. Three particularly relevant supply chain knowledge dimensions emerge: knowledge transfer, competence and maturity. Investigating the impact upon performance of these dimensions within manufacturing and/or service supply chain contexts constitutes the research focus of this thesis. The empirical investigation is based upon rigorous mail, telephone and Internet survey data collection methodologies and multivariate data analysis techniques such as multiple regression, structural equation modelling and set correlation analysis.

Serge Poisson

STRATEGIC MOVES OF LEADING SPANISH UTILITIES ON THEIR PATH TO SUSTAINABILITY: CORPORATE BEHAVIOR, ENVIRONMENTAL INITIATIVES AND CAPABILITIES DEVELOPMENT (IESE), thesis director: Joan E. Ricart

Abstract: Since the publication of the 1987 Bruntland Report, which coined the term “sustainable development” (SD), management of environmental concerns has become a strategic issue for corporations. My first aim in this thesis is to explore how a firm’s SD behavior evolves over time and how it is influenced by

the firm’s past environmental experience. I argue that experience gained prior to a firm’s commitment to SD (t0) conditions its choice of corporate SD behavior. My second aim is to shed light on which of the four factor categories identified by Bansal & Roth (2000) (legislation, economic opportunities, stakeholder pressures and ethical motives) has most influence on the way a firm’s SD initiatives develop. Finally, to gain insight into the development of specific SD capabilities, I look at how SD capabilities are developed at the level of the individual SD initiative.

To address my research goals, I introduce a research framework, the “Path to Sustainability”, composed of various constructs: Administrative Heritage, SD Corporate Behavior, SD Strategic Importance, SD Capabilities, Development Mode, Relative Importance of Influencing Factors and SD Initiative Development Process. As recommended by Yin (1989), I use the case study method since the phenomenon observed is highly contextual. I select the Utility sector for its environmental sensitiveness, and Spain for being one of the first liberalized utility markets in Europe. I analyse the three leading Spanish companies, all committed to SD. This longitudinal study starts at the SD commitment year (t0), corresponding to the publication of the first sustainability report, until the end of 2004.

I find that over time, all companies aim to be proactive toward SD issues. Each has a specific path to SD pro-activeness, depending on its Administrative Heritage, initial SD Corporate Behavior, SD Initiatives, SD Capabilities acquisition and change in SD Strategic Importance. The Development Mode (on a continuum from external standards adoption to internally emergent) and the relative importance of the Influencing Factors crucially affect the way SD Initiatives develop. Finally, each company actually adopts a specific SD positioning. Building on these findings, I propose a set of SD Corporate Profile types (Trekker, Triathlon Athlete, Sailor and Path Finder), which define a company’s path to sustainability. This research contributes to the Corporate Sustainable Development and Dynamic Capabilities fields. It confirms that specific SD Capabilities are needed to address SD and sheds light on how legislation, economic opportunities, stakeholder pressure and ethical motives influence the SD Capabilities a firm develops. In terms of managerial implications, the typology is helpful for companies looking for possible paths to greater sustainability, in light of their SD Profile.

Raúl Lagomarsino

ON THE ANTECEDENTS AND CONSEQUENCES OF ORGANIZATIONAL COMMITMENT IN URUGUAYAN HEALTH ORGANIZATIONS

(IESE), thesis director: Carlos Sánchez-Runde

Abstract: The purpose of this research is to shed light on the antecedents and consequences of organizational commitment. First, we explore how different types of leadership behavior and exchange relationships between the organization and its members generate different types of commitment. We find that different leadership styles relate differently to each dimension of organizational commitment, and that specific types of exchange relationship strengthen particular dimensions of organizational

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commitment and not others. Next, we explore the impact of organizational commitment on Organizational Citizenship Behavior (OCB) to determine which dimensions of organizational commitment originate OCB and which do not. Finally, we discuss how the concept of professional commitment relates to organizational commitment and OCB.

small and large firms, with a stronger effect in capital-intensive industries. These predictions are empirically supported by data on around two hundred 4-digit manufacturing industries across thirteen Western European countries. Finally, for Germany and Italy I provide complementary evidence linking historic financial institutional features to the current firm size distribution.

IESE - Research Seminars

Accounting and Control

February 1

Keynote speaker: Ana Marques, The University of Texas at Austin
"SEC interventions and the frequency and usefulness of non-GAAP financial measures"

Economics

January 26

Keynote speaker: Pablo Casas-Arces, University of Oxford
"Relative performance compensation, contests and dynamic incentives"

Abstract: In this paper we derive new theoretical results on the behavior of participants in dynamic tournaments. We also examine a new dataset from a commodities company that organized several contests among its retailers, and test the predictions of the theory.

We show that those who participated in the tournament exerted higher effort than non-participants, but the increase was inversely related to the size of the tournament.

We also document the incentive effects of interim feedback while the tournament is in progress, and we compare it to the theoretical predictions. Finally, we demonstrate a shift in allocation of sales effort across product lines, reflecting the weighting of the tournament's performance metrics.

January 30

Keynote speaker: James Costantini, Harvard Business School
"Impact of credit constraints on industry structure: Effects and evidence"

Abstract: Empirical evidence indicates that financial development affects industry growth. What is less understood is how the impact varies across firms within an industry. Poor financial development results in credit constraints, limiting the growth of firms dependent on external finance. This reduces the competitive threat to other firms in the industry, inducing changes in prices, output, or investment. I develop a model of an industry in which the growth of firms is affected by credit constraints, with consequent feedback effect on the industry equilibrium. I find that relaxing credit constraints widens the difference in growth and size between

February 1

Keynote speaker: Claudia Canals, Columbia University
"What explains the widening wage gap? Outsourcing vs. technology"

Abstract: The relative rise of wages for high-skilled workers over the last three decades has been the subject of intense academic and popular scrutiny. This paper develops a new methodology for decomposing wage changes into three sources: outsourcing, biased technological change, and total technological change. We find that between 1980 and 1999 outsourcing accounts for 28% of the observed wage change, and biased technological change for another 43% in the US. Jointly, these two forces explain 58% of the wage change. In sum, we find that outsourcing and biased technological change can account for a large share of the observed divergence in the skilled wage premium.

February 2

Keynote speaker: Jan De Loecker, Economics Department, K.U. Leuven
"Product differentiation, multi-product firms and structural estimation of productivity"

Abstract: In this paper I propose a methodology to estimate (total factor) productivity in an environment of product differentiation and multi-product firms. In addition to correcting for the simultaneity bias in the estimation of production functions, I control for the omitted price bias as documented by Klette and Griliches (1996). By aggregating demand and production from product space into firm space, I am able to use plant-level data to estimate productivity. The productivity estimates are corrected for demand shocks and as by-products I recover the elasticity of demand and implied mark-ups. I apply this methodology to the Belgian textile industry using a dataset where I have matched firm-level with product-level information. The resulting production coefficients and productivity estimates change considerably once the demand variation and the product mix are taken into account. Finally, I analyze the effects of trade liberalization in the Belgian textile industry. While I find significant productivity gains from trade liberalization, the estimated effects are approximately half of those obtained with standard techniques.



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February 6

Keynote speaker: Tomasz Michalski, Columbia University
"Borders, endogenous market access and growth"

Abstract: We discuss the role of contracting impediments created by the existence of national borders on open economy growth. In a two-good neoclassical Ramsey growth model with lack of enforcement on international trade contracts, we show that endogenous trading constraints with positive trade may arise on the transition path towards an open-economy steady state. These constraints may bind more severely low-income economies. Dynamic incentives to fulfill international contracts are easier to provide to high-income agents that have a stronger love-of-variety and investment motives to trade internationally. Investment in capital serves thus as a commitment device.

The extent of the impediments may render countries unable to engage in international exchange at all, in effect keeping them in a poverty trap. Countries with dissimilar initial capital per capita may converge to different steady states. Contracting problems in international exchange may block the channel through which, as many researchers believe, international trade affects growth by increasing investment rates.

The model provides a new explanation for the correlations observed in the data, for example that the trade/GDP ratio across countries is positively related with income per capita. Our model and its extensions add to the understanding of a number of puzzles (inter alia "the missing trade") in international economics. Using new data on trade credit in international transactions we provide correlations supporting the view that collection risks hinder international exchange. Policy implications stress the role of promoting contract enforcement and trade liberalization.

February 13

Keynote speaker: Elsa Artadi, Harvard University
"Going into labor: Earnings vs. infant survival in Rural Africa"

Abstract: In Sub-Saharan Africa, variation in weather and nutrition causes children born in certain months to be up to three percentage points more likely to die. This seasonal variation is large relative to the annual average of eleven percent infant mortality. Parents do not always time births for low-mortality months. Agricultural cycles may help explain why: in some areas, low-mortality months coincide with high demand for women's labor. Thus, parents are faced with a stark trade-off between their newborn's health and family income. I show that families who live in areas with a larger trade-off tend to choose birth months that are worse for infant survival. Families who face less of a trade-off—those less dependent on female wages or subject to less seasonal labor demand—choose lower mortality months. Access to family planning heightens these effects by helping families target a specific birth-month more accurately. The results suggest that policies that smooth seasonality in labor demand and consumption could substantially improve infant survival.

February 14

Keynote speaker: Emeric Henry, Stanford University
"Runner-up patents: Is monopoly inevitable?"

Abstract: Exclusive patents sacrifice product competition to give firms incentives to innovate. We characterize an alternative mechanism whereby later inventors are allowed to share the patent if their discovery comes within a certain time period of the first innovator. Such runner-up patents may reduce the research incentives, but we show that under very general conditions the benefits from increased competition on the product market outweigh these potential costs and render the system socially beneficial. We thus prove that an efficient tradeoff between research incentives and deadweight loss can be achieved without granting monopolies. Furthermore, we demonstrate that the time window in which later inventors may share the patent should become a new policy tool at the designer's disposal. This instrument will be used in a socially optimal mix with the breadth and length of the patent and could allow sorting between more or less efficient firms in a differentiated patent policy.

February 15

Keynote speaker: Mariano Tappata, Department of Economics, UCLA
"Rockets and feathers: understanding asymmetric pricing"

Abstract: Prices rise like rockets but fall like feathers. This stylized fact of most markets is confirmed by many empirical studies. In this paper, I develop a model with competitive firms and rational partially-informed consumers where such asymmetric response to costs by firms emerges naturally. In contrast to public opinion and past work, collusion is not necessary to explain such result. Using a rich dataset of retail gasoline prices, I find the observed price dispersion pattern to be consistent with the model's prediction.

February 16

Keynote speaker: Ambarish Chandra, Northwestern University
"Demand and welfare in two-sided media markets"

Abstract: I estimate the demand for advertising and subscriptions in newspaper markets, using disaggregate data to identify how preferences vary in the population according to location and demographics. I also analyze consumer welfare and net benefits, taking into account both sets of consumers in the market, in contrast to previous work which has focused only on advertisers. The results show that the valuation of news and advertising decreases with the distance from a newspaper's location. Moreover, demographic characteristics have a significant effect on marginal utilities; in particular, print advertising is an inferior good because the valuation of advertising decreases with subscribers' income. This variation in consumer preferences is important when calculating measures of consumer welfare because I can take into account the entire distribution of preferences rather than simply the mean.

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February 17

Keynote speaker: Fabio Castiglionesi, Universidad Carlos III
"Liquidity coinsurance, moral hazard and financial contagion"

Abstract: We study the propagation of financial crises between regions characterized by moral hazard problems. The source of the problem is that banks are protected by limited liability and may engage in excessive risk taking. The regions are affected by negatively correlated liquidity shocks, so that liquidity coinsurance is Pareto improving. The moral hazard problem can be solved if banks are sufficiently capitalized.

Under autarky, a limited investment is needed to achieve optimality, so that a limited amount of capital is sufficient to prevent risk-taking. With interbank deposits the optimal investment increases, and capital becomes insufficient to prevent excessive risk-taking. Thus, bankruptcy occurs with positive probability and the crises spread to other regions via the financial linkages. Opening the financial markets is nevertheless Pareto improving; consumers benefit from liquidity coinsurance, although they pay the cost of excessive risk-taking. Finally, we show that in this framework a completely connected deposit structure is more conducive to financial crises than an incompletely connected structure.

February 20

Keynote speaker: Marc Martos-Vila, Princeton University
"Executive compensation and the search for corporate control"

Abstract: This paper analyzes the market for corporate control and acquisitions by explicitly modeling a typical firm's choice whether to become a potential acquirer or target. I add synergistic motives to a multitask principal-agent framework with moral hazard between managers and shareholders. I argue that the terms of an M&A deal are determined not in isolation but in a market equilibrium context, therefore the merger transaction is embedded in a dynamic general-equilibrium search-and-matching model. This framework links explicit and implicit incentives in a novel way. By modeling the choice explicitly I reconcile the puzzling evidence that in mergers target shareholders gain whereas acquirer shareholders seem to lose or gain nothing, yet most of the time they do not block the acquisition. Apart from reconciling the aforementioned puzzle, it is shown that Golden Parachutes are the optimal form of compensation regarding merger-related incentives. I establish efficiency results and explain how merger waves might arise, in addition to other (testable) implications.

Financial Management

January 19

Keynote speaker: Ethan Cohen-Cole, University of Wisconsin
"The investment persistence puzzle"

Abstract: This paper identifies a previously unrecorded pattern in cross-country data. The persistence of aggregate investment varies

across countries. I find that investment is more persistent in many advanced economies than in relatively slow growing, poor or volatile countries. Neither real business cycle models, adjustment cost models, nor financial accelerator/amplification models can reproduce the observed pattern. Empirical investment studies are also impacted as they have generally assumed universality of the investment time series structure. If persistence varies, such an assumption can lead to spurious inference.

This paper evaluates the causes as well as the implications of the persistence pattern. A stylized partial equilibrium model finds that heterogeneity in the availability of long-term debt explains persistence differences. Firms which face a long-term credit constraint choose relatively shorter investment terms. This leads, in the aggregate, to a less persistent investment series. A calibrated version of the model is shown to match the cross-country data pattern. COMPUSTAT data is used to verify testable implications of the model. In addition, I draw an empirical link between persistence of investment at the aggregate level and GDP growth. The data show that a regression of growth on aggregate investment persistence is very robust.

February 3

Keynote speaker: Tolga Cenesizoglu, University of California, San Diego
"Risk and return reaction of the stock market to public announcements about fundamentals"

General Management

January 9

Keynote speaker: Antoaneta Petkova, University of Maryland
"Reputation building by new ventures: The role of symbolic activities and signaling assets"

Abstract: Reputation can help new ventures attract stakeholders and engage in interactions with them. Yet, prior research provides limited insights into the question of how new ventures can build reputation early in their lives. Scholars have found that the reputation of established firms is a function of their past financial performance and costly investments in strategic signals, such as pricing and advertising. However, new ventures lack performance track records and usually possess limited resources; this makes it difficult for them to rely on the same sources of reputation as established firms. Further, extant research suggests that because new ventures lack their own reputations, they borrow the reputation of their partners or investors. However, this research overlooks the possibility that new ventures can build their own reputation. Thus, research to date leaves open the questions: 1) how can new ventures build their own reputations? and 2) what are the consequences of reputation building for NV performance? Given the limited guidance provided by prior literature, I undertook an exploratory research, the insights from which are used to develop a model of reputation building by NVs. According to this model, two groups of factors can contribute to new venture



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reputations: 1) symbolic activities can be used to attract stakeholders' attention, showcase the unobservable qualities of the new venture, and induce positive opinions about it, and 2) NV attributes, such as human capital, social capital and product completion can serve as signals of the NV's underlying quality and potential. Further, symbolic activities can be used to showcase the substantive NV attributes. I test these hypotheses in a sample of 249 venture capital backed information technology ventures founded between 1997 and 2001 in the U.S. My results support the idea that the symbolic activities used by new ventures and the signaling assets they possess jointly influence their early reputations, which in turn increase their performance.

January 19

Keynote speaker: Nicola Lacetera, Massachusetts Institute of Technology
"Multiple missions and academic entrepreneurship"

Abstract: This paper analyzes academic scientists's decision to commercially exploit their research. I build a model of the timing of an academic research team's entry into commercial activities and analyze the returns and costs of such activities. In order to focus on the peculiarities of academic entrepreneurship as opposed to industrial entrepreneurship, I compare the behavior and performance of the academic team with that of an industrial research team. The two teams are assumed to differ in their objectives, governance modes and incentive systems. I show that, while in some cases academic scientists are more reluctant to commercialize research, in other cases they may commercialize faster than profit-seeking firms would –and perform less basic research. I also derive that academic scientists tend to enter commercial projects with higher returns than industrial actors, and therefore a self-selection mechanism may explain the success of "academic entrepreneurs". This study helps interpret the mixed evidence on the success of university involvement in business-related research activities, and the arguments for and against such involvement. I also identify and discuss a series of implications for empirical research on the commercialization of academic research.

January 24

Keynote speaker: Stoyan V. Sgourev, Sloan School of Management
"From arm's length to bear hug: Theoretical clarification and test of the value-conversion assumption"

Abstract: We examine a core assumption underlying sociological accounts of "embedded" economic relationships: that such relationships constrain self-interested behavior. Our analysis is motivated by two related gaps in work that invokes this assumption of "value-conversion:" a) the lack of systematic support for the implication that strong ties may lead a capitalist to act against her interests as she herself construes it; and b) the challenge of identifying the specific features of an embedded relationship that make it different from an arm's-length tie. We address these gaps by analyzing attrition from an industry peer

network (IPN) in the remodeling construction industry. Unique features of the survey data allow us to apply a model from the job and housing mobility literatures, whereby deviations from rationality are revealed in the tendency for an actor's assessment of the strength of her ties to others in a collectivity (e.g., workplace, neighborhood, or IPN) to lower future mobility even when controlling for her overall assessment of the value of her membership in that collectivity. Our results support this model, which suggests that strong attachment to IPN peers leads a member either to refrain from making effective cost-benefit calculations or to fail to grasp the social constraints that prevent her from acting upon such calculations. Our analysis also shows that the key aspect of tie-strength responsible for value-conversion in this IPN is a mode of social relationship that has received little attention in recent research: the extent to which an actor looks to others as sources of motivation.

January 25

Keynote speaker: Marco Tortoriello, Carnegie Mellon University
"The social underpinnings of absorptive capacity: External knowledge, social networks, and individual innovativeness"

Abstract: In this paper I investigate the social process through which knowledge sourced from outside the organization is internalized and applied to the creation of commercializable innovations. Building on absorptive capacity and social network theory, I present and test a theoretical model to explain the differences in individual contributions to organizational innovativeness. The model is premised on the notion that innovation stems from the novel combination of different sources of knowledge and, as such, is the result of collective rather than individual efforts. Focusing on the type of knowledge internalized, whom it is internalized by, and the interaction patterns through which it is applied to the generation of innovation, I argue that both the structure of knowledge and the structure of social networks are critical aspects of the absorptive capacity process. Hypotheses derived from the theoretical framework are tested using original sociometric data collected from 276 scientists, researchers, and engineers from 16 R&D labs of a multinational semiconductor producer. Results indicate that knowledge sourced from outside the organization enhances individuals' contributions to organizational innovativeness. These benefits however, are contingent upon the type of external knowledge sourced by individuals and how similar or different this knowledge is to the knowledge available through their network of contacts inside the organization.

January 31

Keynote speaker: Antoni Calvó-Armengol, ICREA, Universitat Autònoma de Barcelona
"Who's who in networks. Wanted: The key player"

Abstract: Finite population non-cooperative games with linear-quadratic utilities, where each player decides how much action she exerts, can be interpreted as a network game with local

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payoff complementarities, together with a globally uniform payoff substitutability component and an own concavity effect. For these games, the Nash equilibrium action of each player is proportional to her Bonacich centrality in the network of local complementarities, thus establishing a bridge with the sociology literature on social networks. This Bonacich-Nash linkage implies that aggregate equilibrium increases with network size and density. We then analyze a policy that consists of targeting the key player, that is, the player who, once removed, leads to the optimal change in aggregate activity. We provide a geometric characterization of the key player identified with an inter-centrality measure, which takes into account both a player's centrality and her contribution to the centrality of the others.

Research Seminars

Africa Ariño

On January 30, at Bocconi University, in Milan, presented the paper "Contracting costs in outsourcing partnerships: An investigation of termination provisions", co-authored by Peter S. Ring.

Abstract: We analyze the influence that the complexity of termination provisions and the existence of prior ties between partners have on outsourcing partnerships' contracting costs, as reflected in their negotiation time. We examine the dimensionality of the complexity of termination provisions; the findings reveal distinct classes of termination provisions, the negotiation of which have differential effects on contracting costs. The evidence also indicates that prior ties have no direct influence on negotiation time, although they moderate the effects of negotiating termination provisions into outsourcing agreements.

On February 16, at RSM Erasmus University, in Rotterdam, presented the paper "The role of justice theory in strategic alliance negotiations", co-authored by Peter S. Ring.

Abstract: We report data from a revelatory qualitative case study of a failed attempt to negotiate an international joint venture agreement. We analyze issues of justice and the role that the occurrence of such issues in the course of the negotiations might have played in this outcome. These potential antecedents of the failure are derived from theories of organizational justice. The results support an argument that organizational justice theory, particularly interactional justice, can play an important role in explaining alliance negotiation outcomes.

Miscellaneous

Antonio Argandoña

On January 31, gave the lecture "La responsabilidad de los economistas ante la responsabilidad social de la empresa", at the Colegio de Economistas de Valencia.

Manel Baucells

Has been appointed Associated Editor of the following journals: Management Science and Operations Research (Decision Analysis area), Management Science and Operations Research.

Adrian Done

Was recently named "Advanced Institute of Management (AIM) Research Fellow" in recognition of his outstanding PhD research.

Domènec Melé

On January 11-13, attended, in Montreal, the CIRAN V Conference on spirituality in management, where he gave the lecture "Overview of a case study on Tomasso Corporation".

José R. Pin

On January 31, attended, in Burgos, the conference on "Círculo de actualidad empresarial", organized by Caja-Círculo and the Chamber of Commerce, where he gave the lecture "Consistencia: la clave de la dirección de recursos humanos en la empresa"

Abstract: En la conferencia se destaca la necesidad de que las políticas y prácticas de dirección de personas y recursos humanos de las empresas sean consistentes con el entorno económico, social y cultural, así como con la estrategia de la compañía. También, que sean consistentes entre sí las cuatro políticas de retribución, carreras, diseño del puesto de trabajo y comunicación. Por último, es necesaria esa consistencia con el ADN de la empresa (valores, motivación, estilos cultura...). Todo ello exige que la dirección general contemple las diferentes partes de esa consistencia como un todo, que las haga compatibles a la vez que potencia sus sinergias.

Víctor Pou

Has been appointed Board Member and member of the Management Committee for European Affairs of the EFMD (European Foundation for Management Development), an organization which brings together and represents the leading business schools in Europe and the rest of the world, as well as one hundred leading European companies. He has also been appointed Board Member and member of the Management Committee of the European Institute for Asian Studies, based, like the EFMD, in Brussels. At the same time, along with other professionals of different EU nationalities, he has been



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appointed by the European Commission to join a team responsible for the privatization of telecommunications, financial services and tourism in Palestine, under the supervision of the Palestinian National Authority.

His courses on European Union Foreign Relations and the World Economy have earned recognition as Jean Monnet Modules, within the European Commission's Jean Monnet Action.

The Jean Monnet Action is an initiative of the Directorate-General for Education and Culture (DG EAC) of the European Commission to stimulate European integration studies and reward outstanding initiatives in this field.

Guido Stein

On January 28, gave the lecture "El gobierno de las entidades no lucrativas" for UNEFA (Unión de Escuelas Familiares Agrarias) at Fundación ONCE in Madrid.

On February 28, attended, in Barcelona, the Conference of the APD (Asociación para el Progreso de la Dirección) on "Management, liderazgo y organización", where he gave the lecture "El mejor Drucker: ideas originales para directivos y empresarios hoy".

Abstract: Se presentan las principales ideas de Peter Drucker que han tenido un impacto más duradero en la configuración del *management* de nuestros días y de cómo podían resultar útiles para los directivos y empresarios en su desempeño diario.

Book reviews

Joan E. Ricart

Reviewed the book "The Delta Project: Discovering new sources of profitability in a networked economy", by Arnoldo C. Hax and Dean L. Wilde II, Palgrave, 2001, *Journal of Strategic Management Education*, Vol. 2, No 1, 2005.

Guido Stein

Reviewed the book "Leading the way", by Robert Gandossy and Marc Effron, John Wiley and Sons, New York, 2005, *Enfoques*, Vol. X, No 22, 2005.

Teaching materials

NOTE: The updated bibliography may be consulted on the Internet at:

http://www.wapp.iese.edu/research/res_search_adv.asp?lang=en

Business Ethics and Theology

Tomasso Corporation: Including Spirituality in the Organizational Culture (A)

(BE-154-E - 0.305.035)

This case traces the history of Tomasso Corp: Starting as a small, family-run business in Montreal, it was always run in a "family way", with close and easy relations between the workforce and the owners. On expanding, in the 1980s, ownership was transferred to another corporation, and the increased workforce, combined with rationalized management techniques, soon led to a breakdown in relations between management and the workforce. With the departure of the founding family, the new owner, Robert Ouimet, began to introduce his own management philosophy, known as "Our Project", strongly based on his Christian spirituality. Initially met with discomfort and skepticism, the strongly value-based management philosophy gradually began to gain acceptance. The case ends with the new managing director, Rob McKenzie, wondering how to deal with the 11 managers and senior staff who have been identified as problematic, and unable to work in a way which coincides with "Our Project". Can their working methods be reformed, or should they be sacked?

(Also available in Spanish.)

Corrales A.; Melé D.; 29 pages.

Tomasso Corporation: Including Spirituality in the Organizational Culture (B)

(BE-155-E - 0.305.036)

This case follows on from case A, and begins with Rob McKenzie's decision to fire the 11 recalcitrant staff. It shows how he does this in accord with the spiritual and humanistic values outlined in "Our Project". It then goes on to show how he gradually introduced the company's guiding values to all aspects of its daily management.

(Also available in Spanish.)

Corrales A.; Melé D.; 5 pages.

Medtronic Inc.: From Corporate Mission to Organizational Culture (A)

(BE-156-E - 0.305.066)

Twelve years after the foundation of Medtronic Inc. in 1949, Earl Bakken, one of its founders, wrote the company's Corporate

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Mission Statement. Since then, Medtronic has been a mission-driven, values-centered organization with an adaptable business strategy. In 1989, Bill George, an admired manager, was appointed President and Chief Operating Officer. Bill saw in Medtronic several outstanding features that were fully in line with his managerial vision. During his first year at Medtronic, Bill faced some organizational problems, such as the philosophy of the quality system and the dubious behavior regarding questionable payments by some managers in the firm's European branch.
(Also available in Spanish.)

Corrales A.; Melé D.; 18 pages.

Medtronic Inc.: From Corporate Mission to Organizational Culture (B) **(BE-157-E - 0.305.067)**

In early 1990, Bill George launched the "Customer Focused Quality" program (CFQ). This approach established that the firm's only customers were patients, physicians and hospitals. Facing the problem that had arisen in the European branch, Bill realized he had made a huge mistake in not checking the ethical values of the European president before making the appointment. Medtronic publicized the matter internally and externally, notifying the findings to all government bodies concerned and disclosing the affair to the media. Apart from the European president, four European managers were laid off in connection with the matter. At the same time, he started a review of the subsidiary operations to ensure compliance with company policies and applicable laws. Some months later a new bribery problem arose in Japan and some Medtronic managers were sent to jail. Bill George wondered how this kind of problem could be dealt with once and for all.
(Also available in Spanish.)

Corrales A.; Melé D.; 6 pages.

Medtronic Inc.: From Corporate Mission to Organizational Culture (C) **(BE-158-E - 0.305.068)**

After bitter bribery-related experiences in Europe and Japan, Bill George decided to implement a code of conduct for Medtronic. This code was later complemented by a code of ethics for senior financial officers, a code of business conduct and ethics for members of the board of directors, and environmental, health and safety guidelines. Bill also established the Medtronic Principles of Corporate Governance (MPCG). The case presents these codes.

Corrales A.; Melé D.; 16 pages.

Accounting and Control

Morgan Components - Teaching Note **(CT-18-E - 5.105.036)**

Case C-730-E.
(Also available in Spanish.)

Use is restricted to Academic Institutions.

Fernández A.; Palencia L.; 19 pages.

Decision Analysis

Exercises on Monte Carlo Simulation **(ADE-27-E - 0.105.025)**

Decision trees are a helpful tool for structuring a decision; but they are limited to a small number of interacting uncertainties. In such cases, spreadsheet simulations are an alternative way to model uncertainties. The purpose of this note is to lead you through some exercises that can help to increase your understanding of simulations.

Baucells M.; Heukamp F.H.; 8 pages.

Analysis of Business Problems

Escatsa: The UK and Hungary Decisions - Teaching Note **(ASNT-8-E - 5.305.061)**

Case ASN-33-E.
(Also available in Spanish.)

Use is restricted to Academic Institutions.

García Pont C.; Palencia L.; 10 pages.

Entrepreneurship

Infosys Technologies: Powered by Intellect, Driven by Values **(E-81-E - 0.605.021)**

This case documents the evolution of Infosys Technologies from its humble beginnings in 1981 to its position in 2004 as one of the most admired companies in India, with revenues in excess of US\$ 1 billion, profits of US\$ 270 million (CAGR in revenues and profits of approximately 60% over the past 10 years), and a workforce of more than 25,000 employees. The case focuses on the values of the founders, and the extent to which these values have allowed the company to grow so fast.
(Also available in Spanish.)

Mitchell J.; Velamuri R.; 28 pages.



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Infosys Technologies: Powered by Intellect, Driven by Values - Teaching Note (ET-5-E - 5.606.012)

Case E-81-E.

Use is restricted to Academic Institutions.

Mitchell J.; Velamuri R.; 11 pages.

Mittal Steel: The Making of the World's Largest Steel Company (A) (E-82-E - 0.605.023)

Lakshmi Mittal, an Indian born entrepreneur, built the largest steel producing group in the world, with nearly 70 million tonnes of production capacity and US\$ 31.5 billion in revenues, over a 28 year period from 1976 to 2004. He has shown an uncanny knack for acquiring underperforming steel mills in Trinidad, Kazakhstan, Mexico, Ireland, Germany, the US, and China, and turning them around.

Mitchell J.; Velamuri R.; 23 pages.

Mittal Steel: The Making of the World's Largest Steel Company (B) (E-83-E - 0.605.024)

Case (B) provides data on two other Indian steel companies: 150 year old Tata Steel and the government-owned Steel Authority of India Limited. It allows the instructor to contrast the entrepreneurial strategy of Mittal with the more administratively focused strategy of these two companies.

Mitchell J.; Velamuri R.; 3 pages.

Financial Management

Los tipos de interés (FN-528 - 0.205.025)

En esta nota se presentan algunos conceptos básicos relacionados con la operativa y el seguimiento de los tipos de interés. La primera parte del documento está dedicada a cuestiones de terminología, al valor del dinero en el tiempo y a entender la estructura temporal de los tipos de interés. A continuación se presentan algunos tipos de interés de referencia necesarios para manejarse con soltura en los mercados financieros.

Rahnema A.; 16 pages.

How to Interpret an Investment Bank's Financial Statements (FN-535-E - 0.205.032)

This technical note outlines the main characteristics of investment banking, using Goldman Sachs as an example. It provides an overview of the main features of the investment banking business and its three main segments. It goes on to analyze: assets and liabilities; cash trading instruments; derivative contracts; principal investments; secured borrowing and lending activities; short-term borrowing; and revenue recognition.

Soley J.; 9 pages.

The Organisational Structure of Banking Supervision (FN-536-E - 0.205.033)

This technical note justifies the existence of a system for supervising credit agencies on the basis of their characteristics, implicit systemic risk, and for the economy in general. It analyses the pros and cons of supervision within the central bank, or by an independent body. It indicates that there are no simple solutions, and that different solutions will be required for emerging and developed economies.

Soley J.; 12 pages.

Basel II: Operational Risk in Financial Institutions (FN-537-E - 0.205.035)

This note explains the concept of operational risk in financial institutions. This new concept has been introduced by Basel II as a new factor in the calculation of capital requirements, with the aim of creating a more solvent financial system. Operational risk is understood to mean "The risk of losses resulting from inadequate and/or erroneous internal processes, personnel, systems or external events." Both financial and non-financial companies are repeatedly affected by the operational risks to which they are exposed. This note develops a system of models to understand operational risk from both the qualitative and quantitative perspectives. Assumption and management of operational risk in both financial and non-financial companies should provide a stimulus for cultural change in organizations, improving their processes and transparency.
(Also available in Spanish.)

Soley J.; Rahnema A.; 21 pages.

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General Management

Milking Money out of Parmalat (DG-1478-E - 0.305.041)

At Parmalat's headquarters in Collecchio (Parma), top management was desperately trying to rescue the Group, negotiating a cash injection of 3 billion euros with LBO funds, Blackstone and KKR, and the investment banking arm of Deutsche Bank. At the end of 2003, Parmalat Group was Italy's eighth largest industrial concern and arguably one of its most international. With over 37,000 employees, 139 production sites in 30 countries on all 5 continents, revenues in excess of 7.6 billion euros at the end of 2002, EBIT of about 600 million and a market capitalization of 2.3 billion, Parmalat was one of the largest food-processing companies in the world and a renowned leader in UHT (Ultra High Temperature) milk production. Previously, very few analysts had raised doubts about the Group's financial strength, and none could imagine the scale of the financial problems that were soon to be discovered.
(Also available in Spanish.)

Tàpies J.; 35 pages.

Milking Money out of Parmalat - Teaching Note (DGT-40-E - 5.305.042)

Case DG-1478-E.
(Also available in Spanish.)

Use is restricted to Academic Institutions.

Tàpies J.; 7 pages.

A New Model for the Pharmaceutical Industry: The Institute of OneWorld Health (DG-1480-E - 0.305.050)

This case introduces the Institute of OneWorld Health (IOWH), a company dedicated to producing drugs for neglected diseases and the world's first non-profit pharmaceutical company. Founded in 2000 by Dr. Victoria Hale, IOWH took expired and donated patent compounds and developed them through all the stages of clinical testing and approval into drugs to fight the world's most destructive diseases, usually occurring in Third World countries, where perceived profitable markets did not yet exist. By 2004 IOWH was at the stage of presenting its first Phase 3 Clinical Trial results for Paromomycin, a drug developed for Visceral Leishmaniasis, which kills as many as 200,000 people each year in India, Bangladesh, Sudan, Brazil, and Nepal. Its next task was to form partnerships with other organizations to manufacture and distribute the drug. The case focuses on Dr. Hale's strategy for IOWH going forward, with particular reference to its core competencies and mission. The case encourages students to consider other models with similar aims and to observe how social entrepreneurs such as Dr. Hale endeavour to overcome the market

failures that exist for basic health care in the world's least developed countries.

Schoen O.; Mair J.; 33 pages.

A New Model for the Pharmaceutical Industry: The Institute for OneWorld Health - Teaching Note (DGT-49-E - 5.306.008)

Case DG-1480-E.

Use is restricted to Academic Institutions.

Mair J.; 9 pages.

Now Everybody Can Fly: AirAsia (DG-1485-E - 0.305.062)

This case details how AirAsia, a Malaysian airline, was transformed into a successful low-cost airline through its well-defined business model. The emergence of low-cost airlines in Asia led to increasingly intense competition in the industry. By forming joint ventures across Asia, AirAsia was trying to gain advantages with its Pan-Asia plan. With such a plan, the low-cost carrier would obviously face the risk of overexpansion. This case study explores AirAsia's business model, competitive advantages, and expansion strategy.

Wang D.; Ricart J.E.; 25 pages.

Now Everybody Can Fly: AirAsia - Teaching Note (DGT-41-E - 5.305.063)

Case DG-1485-E.

Use is restricted to Academic Institutions.

Wang D.; Ricart J.E.; 23 pages.

Microfinance (DGN-647-E - 0.305.051)

Microfinance is the provision of financial services to poor households that do not have access to formal financial institutions. The range of services includes loans, savings facilities, insurance, transfer payments and micro-pensions. Evidence from the millions of microfinance clients around the world demonstrates that access to financial services enables poor people to increase their household income, build assets and reduce vulnerability to everyday crises. That is why microfinance is in the spotlight as a key tool for combating poverty and improving the lives of the poor. This technical note describes the microfinance sector, the different microfinance methods and institutions, and industry trends.

Blahnik H.; Mair J.; 20 pages.



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eDreams: Real People, Great Vacations - Teaching Note (DGT-35-E - 5.305.009)

Case DG-1386-E.

Use is restricted to Academic Institutions.

Cassiman B.; 7 pages.

Information Systems

Implementation of SAP at CELSA (A) - Teaching Note (SIT-9-E - 5.105.016)

Case SI-139-E.

Use is restricted to Academic Institutions.

Sieber S.; Valor J.; 11 pages.

Managing People in Organizations

Grupo Social Euroquímica (DPO-44-E - 0.404.042)

This case discusses the concerns of the president of Euroquímica, a business group run on the basis of worker participation. Worker participation entails not only profit sharing, but also worker participation in corporate governance via the shareholders' meeting: after a certain number of years' service in a group company, workers receive shares in the company. The questions the president is considering are: his succession in five years' time; the product marketing strategy; the opening up of new markets; and problems with a particular worker that reveal deeper problems within the organization. The case describes the factors that led the founders of Euroquímica to opt for worker participation, and the changes in the company's market and products over the last three decades, focusing on the situation in 2002.

(Also available in Spanish.)

Las Heras M.; Vázquez-Dodero J.C.; 20 pages.

Fernando Ruiz: Pros and Cons of a Locomotive (A) (DPO-57-E - 0.405.026)

The case describes the management career of Fernando Ruiz up to the point where he is about to accede to the position he has coveted since he was a child: CEO of a large company. Fernando comes from a humble background and has built his career on the back of a powerful intellect, hard work, self-motivation and sacrifice. He has risen rapidly through the ranks and is on the verge of being appointed CEO and general manager. Yet the promotion fails to materialize, as the company decides he is not ready—that

certain aspects of his exercise of authority, his style of people management, advise against promotion until he has taken remedial action. Has all the effort—not just his own, but of his whole family—been worth it? Can a person shake off a reputation he has built up in an organization? These are some of the questions Fernando must ask himself. Having got this far, what should he do now?

(Also available in Spanish.)

Gay F.; Ribera A.; Pin J.R.; 6 pages.

Fernando Ruiz: a Successful Career (B) (DPO-64-E - 0.405.041)

The case describes the career of a high achiever who works hard to realize his personal ambitions at work, ambitions dating back to his childhood. The case ends just as Fernando is about to realize his dream and become CEO of the company he has worked for all his life. Throughout his development, Fernando has been strongly achievement oriented, rather than people oriented. This has caused him problems as a manager and he has done his best to overcome his shortcomings. At last it seems he has succeeded.

(Also available in Spanish.)

Gay F.; Ribera A.; Pin J.R.; 8 pages.

Fernando Ruiz: Family Issues (C) (DPO-65-E - 0.405.042)

The hoped-for promotion is denied. Instead, Fernando is asked to submit to a 360° assessment to pinpoint the aspects of his relationship with people that justify his superior's reservations. He is told that if he remedies the defects, he will be promoted. Fernando has to decide. But what should he do?

(Also available in Spanish.)

Gay F.; Ribera A.; Pin J.R.; 2 pages.

Keeping a Job (A) (DPO-68-E - 0.405.046)

During his three years with an IT multinational in Barcelona, Javier faced some very difficult situations, as he battled to get his short-term contract renewed at ever shorter intervals. In 2002, despite the promises made to the young employees who had joined two years earlier, the company decided to gradually cut back its temporary workforce. Javier had always been a loyal employee and had met—or exceeded—his targets in every projects he had been assigned to. What's more, he had been bringing the company new business. Feeling abandoned by some of his bosses and wronged by sweeping company policies, Javier decided to do everything in

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his power to "survive" in the company. His plan was simple enough: he would use the power he had over the customers he had brought to the company as a bargaining chip to negotiate his contract renewal.

(Also available in Spanish.)

Juncadella J.; Ribera A.; 11 pages.

Keeping a Job (B)

(DPO-69-E - 0.405.047)

Outcome of case (A).

(Also available in Spanish.)

Juncadella J.; Ribera A.; 3 pages.

A Case about Integrity: Scent of a Woman

(DPO-71-E - 0.405.049)

Watching an Al Pacino film is always an exhilarating experience. In his Oscar-winning film "Scent of a Woman", Al Pacino, playing the part of a blind, retired US army colonel, turns up at the school of his newly found friend to support him during a school disciplinary hearing. The colonel, obviously a man who has courted fame but has been far from honest in his dealings, comes to help a kid he has only met a few days before. So why the sudden change of behavior?

Leggett B.; 3 pages.

Fernando Ruiz: An Unexpected Crisis (D)

(DPO-74-E - 0.406.002)

Outcome of cases (A), (B) and (C).

(Also available in Spanish.)

Gay F.; Ribera A.; 2 pages.

Integrity: The Link Between Personal and Professional Credibility

(DPON-29-E - 0.405.043)

If someone even indirectly implies that we lack "integrity", we bristle. Why? Is there something innate that tells us that others feel we are not trustworthy? The insinuation that we can't be trusted creates a negative feeling inside most people. It is insulting, as we feel we have belittled ourselves in some way. Certainly, in many respects integrity is a very personal thing. But it is also something that society is interested in, as witnessed by the unending announcements of seminars where the word invariably pops up.

Leggett B.; 6 pages.

Reflexiones de un profesor sobre el método del caso

(DPON-35 - 0.406.010)

Este es un trabajo escrito en primera persona. El autor lleva más de cuarenta años utilizando el método del caso y recoge aquí su experiencia sobre este método. Primero analiza los ingredientes de lo que llama el caso "vivo", entendiendo por tal la realidad social que se produce en clase cuando se debate un caso. Segundo, formula una guía sobre cómo dirigir una sesión de discusión de un caso. Finalmente, explica su modo de preparar las sesiones.

Rodríguez J.M.; 5 pages.

John Roux: Starting Over Genesis - Teaching Note

(DPOT-14-E - 5.405.029)

Video DPOV-1-E.

Use is restricted to Academic Institutions.

Cerdwen D.; Miller P.; 8 pages.

Production, Technology and Operations Management

Innovar en operaciones, fuente de ventaja competitiva

(PN-438 - 0.606.021)

La innovación de las operaciones –no simplemente su mejora– significa idear formas completamente nuevas de operar, es decir, formas nuevas de gestionar pedidos, fabricar productos o prestar el servicio al cliente, por ejemplo. Y con este tipo de innovaciones, que suponen una mejora radical de las operaciones, vamos a conseguir poner a nuestros competidores contra las cuerdas.

Moscoso P.G.; 9 pages.

Occasional Papers

NOTE: Occasional papers may be consulted on the Internet at: http://wwwapp.iese.edu/research/res_search_adv.asp?lang=en

OP-06/1 - February 2006

Adam Mendelson

IMPLEMENTING HARVARD BUSINESS SCHOOL'S CASE METHOD IN DISTRIBUTED ENVIRONMENTS

Abstract: This paper presents a discussion of IESE Business School's use of case method teaching in the distributed learning part of its Global Executive MBA program. The paper starts with a basic replication in which physical spaces (classrooms and meeting



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rooms) are replaced by online communication tools (asynchronous message boards). Because such distributed implementation has the potential to produce unmanageable quantities of messages, this paper proposes both IT-based and instructional design-based interventions to address this issue. Additionally, the paper examines three possible advantages of distributed implementation over face-to-face implementation: greater student diversity and professional experience, greater depth of discussion, and possibility of using digital and multimedia materials to complement the discussion. The paper provides a detailed example of one specific implementation and closes with questions for future research.

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