

No 135

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Journals

Jeffrey J. Reuer - Africa Ariño

"Strategic alliance contracts: Dimensions and determinants of contractual complexity", *Strategic Management Journal*, Vol. 28, No 3, March 2007, pages 313-330.

Abstract: In contrast to prior studies examining strategic alliances as a discrete governance structure (e.g., alliance versus M&A), we investigate their particular contractual features. A focus on the contractual provisions that firms employ in alliances also permits a more fine-grained understanding of alliance design relative to broad taxonomies of collaborative agreements that are currently in use (e.g., equity versus non-equity arrangements). The analysis examines the dimensionality of the contractual complexity construct and investigates the determinants of firms' adoption of various contractual provisions for their strategic alliances. We find two underlying dimensions of contractual complexity, based upon the enforcement and coordination roles that contractual provisions play. The evidence reveals that firms' usage of particular contractual provisions is a function of the specificity of the investments firms make as well as whether the alliance's duration is contractually pre-specified or open-ended. The findings also speak to the debate surrounding the role of prior ties and trust for alliance governance: repeat collaborators are not less likely to negotiate enforcement provisions; rather, firms that have collaborated with each other in the past are less likely to adopt contractual provisions that are informational in nature and are geared to the coordination of the alliance.

Javier Estrada

"Mean-semivariance behavior: Downside risk and capital asset pricing", *International Review of Economics and Finance*, Vol. 16, 2007, pages 169-185.

Abstract: For over 30 years academics and practitioners have been debating the merits of the CAPM. One of the characteristics of this model is that it measures risk by beta, which follows from an equilibrium in which investors display mean-variance behavior. In that framework, risk is assessed by the variance of returns, a questionable and restrictive measure of risk. The semivariance of returns is a more plausible measure of risk and can be used to generate an alternative behavioral hypothesis, mean-semivariance behavior; an alternative measure of risk for diversified investors, the downside beta; and an alternative pricing model based on this downside beta. The empirical evidence discussed in this article for the entire MSCI database of developed and emerging markets clearly supports the downside beta and the pricing model based on it over beta and the CAPM.

Javier Estrada - Mark Kritzman - Sebastien Page

"Countries versus industries in emerging markets: A normative portfolio approach", *The Journal of Investing*, Vol. 15, No 4, Winter 2006, pages 19-28.

Abstract: Should investors in emerging markets focus on diversifying across countries or diversifying across industries? This question, widely debated in developed markets, and particularly in Europe, has received little attention in emerging markets. Using a normative approach that disentangles the impact of investor behavior from the opportunities offered by capital markets, we find that country effects dominate industry effects. It follows from our results that, despite the increasing globalization of emerging markets, investors should focus their diversification efforts on countries rather than on industries.

Johanna Mair - Oliver Schoen

"Social entrepreneurial business models in the context of developing economies:



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An exploratory study", *International Journal of Emerging Markets*, Vol. 2, No 1, January 2007, pages 54-68.

Abstract: Social entrepreneurial organizations have gained in awareness and interest among researchers, yet we know relatively little about how these organizations are able to create social and economic value. This paper seeks to understand how such organizations have managed to achieve scale and sustainability in developing economies –often lacking the institutions, networks and resources required to support their growth– whilst also maintaining their focus on a social mission.

Books

Francisco Altarejos – Alfredo Rodríguez – Joan Fontrodona
"Retos educativos de la globalización. Hacia una sociedad solidaria", 2nd edition, *Eunsa*, February 2007, 208 pages.

Abstract: Se acaba de publicar la segunda edición de este libro, que intenta ver las oportunidades que plantea la globalización para la acción educativa. Una de las claves indudables para afrontar la globalización es el recto y pleno sentido de la solidaridad. La educación dispone de inmejorables recursos para que este ideal de solidaridad se realice de forma efectiva.

Ahmad Rahnema
"Finanzas internacionales", *Gestión 2000*, September 2006, 395 pages.

Abstract: La globalización, o más propiamente, la creciente integración económica a nivel internacional de bienes, servicios y mercados financieros, presenta retos y oportunidades tanto para los gobiernos como para las empresas e individuos. Gran parte de las funciones operativas de las empresas se coordinan hoy en un contexto mundial. Como resultado, las decisiones de inversión en el extranjero se realizan cada vez menos de manera aislada. Antes bien, el objetivo de los responsables de la planificación corporativa de las empresas multinacionales ha pasado a ser el diseñar un plan único y global para atender a un mercado mundial.

El libro "Finanzas internacionales" responde a este nuevo grupo de retos con un conjunto de herramientas e instrumentos de mercado, que utilizan para maximizar el retorno de la inversión realizada por la empresa y sometida a un nivel aceptable de riesgo. Cuando se sale de las fronteras de los mercados nacionales, se puede acceder a una amplia variedad de oportunidades de negocio que pueden llevarse a cabo mediante unos acuerdos financieros adecuados. Este libro trata de cubrir los principales aspectos de aquellas transacciones financieras internacionales que un director financiero puede llegar a encontrarse.

Guido Stein

"Cambiar o no cambiar: Esa es la gestión", *Gestión 2000*, February 2007, 116 pages.

Abstract: "El éxito de las estrategias depende de la cantidad de los hechos que las avalen." Esto es verdad, pero no es toda la verdad, ni siquiera la parte más importante, ya que los hechos por sí solos son mostrencos. Sin la percepción subjetiva y la posterior interpretación, también subjetiva, los hechos no dicen nada a nadie. Sólo para los pusilánimes valen sí mismos.

El capítulo primero trata de algunas incompetencias directivas entendidas como comportamientos observables y habituales que conducen o, cuando menos, inducen al fracaso en la función directiva. Se dedican varios epígrafes a la divergencia nociva entre lo que un directivo piensa en su fuero interno y lo que sus acciones proclaman en la realidad, pues se piensa que ahí reside una de las fuentes principales de las frustraciones que se viven en el día a día de las empresas. En el segundo capítulo se abordan decisiones propias de la alta dirección a la luz de criterios que riñen de ordinario con la miopía inherente al corto plazo.

Los dos capítulos siguientes deliberan acerca de lo más íntimo y propio de la función directiva, que entraña dirigir a las personas y su trabajo, y que, por tanto, supone vérselas cara a cara con los cambios. Las personas apuntamos una mezcla imperfecta entre dos polos: estabilidad y mutación; el mejor *management* se afana en que el equilibrio se traduzca en una renovación personal.

Praeger Publishers, Greenwood Publishing Group, has published the following books, edited by Toni Dávila - Marc Epstein - Robert Shelton:

"The creative enterprise: Managing innovative organizations and people: Strategy", Vol. 1, December 2006, 202 pages.

"The creative enterprise: Managing innovative organizations and people: Culture", Vol. 2, December 2006, 222 pages.

"The creative enterprise: Managing innovative organizations and people: Execution", Vol. 3, December 2006, 256 pages.

Abstract: "To create" –to make or bring into existence something new, derived from the Latin *crescere*, to grow. Creativity is the lifeblood of any business– from fledgling startup to global giant, creativity is what inspires entrepreneurs to take the leap into the unknown, motivates project teams to design faster and better products, drives executives to set their sights on new markets and customers. Where does this creativity come from? How can it be channeled into profitable ventures? The Creative Enterprise brings together the most current thinking from academics and practitioners around the world to shed new light on creativity and how it drives business growth. It addresses such topics as: Why are some organizations creative and others are not? What catalyzes new ideas? How can leaders balance short-term financial pressures and long-term creative aspirations? And how can firms maximize the value of their ideas into profitable products and services? While many authors have tackled pieces of the puzzle,

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this set uniquely integrates insights from the fields of management, economics, technology, psychology, and sociology, to cover the spectrum across individual and organizational innovation.

Volume 1 focuses on innovation strategies, with chapters on developing the new product pipeline, measuring the impact of innovation on firm growth, technology transfer, and strategic alliances.

Volume 2 considers the individual and organizational aspects of innovation, with chapters on creativity and artwork, idea catalysts and blocks, and the interplay between organizational culture and innovation.

Volume 3 covers the infrastructure for promoting and sustaining innovation, with chapters on managing creative teams, selecting and funding projects, and developing effective performance measurement and rewards systems.

In *Volume 1*, Toni Dávila has published the chapter "The promise of management control systems for innovation and strategic change", pages 181-192.

Abstract: Management control systems (MCS) have traditionally been viewed as tools for reducing variety and implementing standardization (Anthony, 1965). They are associated with extrinsic motivation, command-and-control management styles, and hierarchical structures. Because their objective is to minimize deviations from pre-established objectives, they are designed to block change for the sake of efficiency. Learning comes from planning ahead of time not from adapting to surprises. The functioning of a thermostat, where a control mechanism intervenes when the temperature deviates from the preset standard, has been a frequent metaphor for this model.

In *Volume 2*, he has published the chapter "Designing rewards to enhance innovation", pages 193-212.

Abstract: Motivating team members is an important part of making innovation happen, and depends very significantly on rewards. Yet motivation is also dependent on (and influenced by) the resources available to the team, the interaction among team members, their interaction with other people inside and outside the organization, and their stock and flow of knowledge. Even the best reward system will be useless if resources are too scarce or the team is inward-looking or has a limited knowledge base. Similarly, adequate resources and interaction and knowledge networks will be useless if team members feel that they are unlikely to be rewarded appropriately.

In *Volume 3*, he has published the chapter "Cash constraints and venture capital stage investing in startup companies", co-authored with George Foster and Mahendra Gupta, pages 173-194.

Abstract: Sequential funding is a salient characteristic of venture capital investing. Startup firms do not receive all the funding they need to achieve profitability in their first round of venture funding. Rather, venture capitalists invest through sequential rounds and their investment today does not commit them to future funding.

Sequential funding allows venture capitalists to periodically update their information about the firm, monitor its progress, review its prospects, and evaluate whether to provide additional funding or abandon the project. Sequential financing provides venture capital with a real option. This option can be exercised or abandoned over time as the uncertainty about the startup firm is resolved. Sequential financing is also advocated as a governance mechanism to reduce the costs associated with the separation of ownership and management implicit in venture-backed startups. The threat of liquidation disciplines managers and reduces managers' incentives to divert resources to themselves at the expense of investors.

Contributions to books

Antonio Argandoña

"Veinte años de estabilización macroeconómica", in the book "Veinte años de España en la integración europea", edited by Real Academia de Ciencias Económicas y Financieras, Barcelona, December 2006, pages 13-30.

Abstract: El 1 de enero de 1986 entró en vigor el Tratado de Adhesión de España a las Comunidades Europeas (hoy Unión Europea). Su impacto sobre la economía, la política y la sociedad española ha sido formidable, y no sólo en los aspectos económicos. Este artículo se fija en los cambios que nuestra pertenencia a la Unión Europea ha tenido sobre la estabilización económica, es decir, sobre la inflación, el déficit público, la variabilidad del tipo de cambio y la competitividad exterior, a través de la política fiscal y de la política monetaria y cambiaria, principalmente. Se muestra cómo la entrada en vigor del Tratado de Adhesión aceleró y consolidó los esfuerzos estabilizadores iniciados en 1977, los objetivos que se tomaron en cada etapa de estos veinte años de historia, las medidas que se adoptaron, los éxitos y fracasos y, especialmente, los cambios experimentados por las políticas de estabilidad, en los últimos años, cuando España es ya miembro de la Unión Económica y Monetaria europea.

Laureano Berasategui - Lluís G. Renart - Francesc Parés "Imaginarium", in the book "International marketing", 8th edition, edited by Michael R. Czinkota and Ilkka A. Ronkainen, Thomson South-Western, February 2007, pages 454-458.

Abstract: In early March 2001, the president of Imaginarium was mulling over the main decisions he had to take regarding his company's commercial strategy. Imaginarium is a chain of 161 toy stores, of which 53 are its own, and 108 are franchised. Of these, 112 are in Spain and 49 are spread across nine other countries. The dilemmas for the commercial strategy are: 1) the chain's internationalization and development program; 2) the launch of a new web page offering the possibility of on-line sales; and 3) the related further development of Club Imaginarium. The company



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has almost 400,000 families registered as club members, but does not have anything like a loyalty card to allow it to determine, with any certainty, member-families' annual expenditure on toys. The company is considering the pros and cons of launching a loyalty card, and whether it should be an exclusive card, or a multi-client one such as Travel Club.

Paddy Miller

"Enthusiastic teaching: A conversation with friends -The Case for Chalk", in the book "Acting lessons for teachers: Using performance skills in the classroom", 2nd edition, edited by Robert T. Tauber and Cathy Sargent Mester, Praeger, January 2007, pages 172-173.

Abstract: This chapter includes a section on the basic dynamic of case teaching in MBA and executive classes. It is a short contribution on why chalk is the most innocuous and, at the same time, most powerful of teaching props. PowerPoint is dangerous by comparison because it takes the re-creative process out of teaching. PowerPoint is difficult to integrate and internalize in a presentation and lacks the flexibility of chalk. While the piece is essentially light-hearted, it makes some serious points about the learning process in the classroom.

Ramón O'Callaghan

"On dynamic clustering, innovation, and the role of IT: Research directions", in the book "The creative enterprise: Managing innovative organizations and people", edited by Toni Dávila, Marc Epstein and Robert Shelton, Praeger Publishers, Greenwood Publishing Group, December 2006, pages 17-41.

Abstract: Although the benefits of clusters are traditionally associated with spatial proximity, in the 21st century one can posit a new way of clustering based on networking of knowledge and competencies, overcoming geographical proximity and the "inward-looking" nature of traditional clusters. The paper sets forth emerging forms of "virtual" clusters that transcend location, focus on international markets, operate as ad-hoc business networks, are IT-supported and based on dynamic aggregation of capabilities of different firms. These organizational arrangements are hypothesized to help small companies improve their position in terms of global market access and innovation. After reviewing some relevant literature on the underlying concepts (IT-enabled business transformation, knowledge transfer in clusters, and dynamic capabilities of the firm), the paper develops a conceptual framework on clustering and its enablers, and raises research questions on the potential roles of information technology (IT), along the dimensions of: virtual proximity, dynamic capabilities, and reconfigurability. The paper concludes with a discussion of potential policy implications.

Lluís G. Renart

"Smith & Nephew - Innovex", in the book "Management of a sales force", 12th edition, edited by Rosann L. Spiro, Gregory A.

Rich and William J. Stanton, McGraw-Hill-Irwin, January 2007, pages 509-524.

Abstract: Smith & Nephew sells health care products in Spain. In September 1999 it decided to conduct a trial that involved hiring from Innovex a team of two sales representatives to support the promotional work being done by the company's own full-time sales force. This promotional effort was aimed at doctors and, above all, nurses. In March 2000, Smith & Nephew's managers had to assess the results achieved to date and decide what to do next.

Jossey-Bass has published the book "Business solutions for the global poor: Creating social and economic value", edited by V. Kashturi Rangan, John A. Quelch, Gustavo Herrero and Brooke Barton, Jossey-Bass, January 2007. The book includes the following chapters:

Joan E. Ricart - Miguel A. Rodríguez - Pablo Sánchez
"Meeting unmet needs at the base of the pyramid: Mobile health care for India's poor", pages 84-91.

Abstract: Current business activities are mainly addressing the needs of premium markets, while the basic needs of the poor population remain largely unsatisfied and unattended by the private sector. As a consequence, most MNCs ignore the reality of low-income markets and do not consider how to develop a business model that will satisfy the real needs of poor people in a profitable manner. Thus, a striking paradox emerges: the private sector is failing to serve the market segment in which most needs remain unmet. To resolve this paradox, in this paper we analyze the DISHA (Distance Healthcare Advancement) project initiated by Philips India and identify the main requirements of a business model for cost-efficiently serving low-income markets. DISHA's goal is to deliver high-quality, low-cost diagnostics to people who cannot access the existing healthcare system.

Our study emphasizes three main elements which seem to be especially critical in business models: the use of new and advanced technologies adapted to local context and customers' needs; the development of partnerships; and the integration of the corporation into local social networks. A balanced combination of these three elements not only allows a MNC to develop an innovative business model that radically reduces its traditional cost structure, but also enables the corporation to understand cultural, economic and social contexts and generate the necessary knowledge and trust to succeed.

Christian Seelos - Johanna Mair

"How social entrepreneurs enable human, social, and economic development", pages 271-294.

Abstract: Sekem, an organization established to make a contribution to Egyptian society in several dimensions (economic, social, and cultural) is the result of the efforts over more than 20 years of an entrepreneur driven by a mission to end poverty in his home country. Ibrahim Abouleish created Sekem by transforming a piece

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of desert into fertile land that today houses several commercial companies as well as cultural and social institutions, including a theater, a medical center, and schools. The paper argues that social entrepreneurs such as Abouleish are able to overcome the hurdles to sustainable socio-economic development in poor countries by building necessary infrastructure, creating social capabilities to respond to economic opportunity, and discovering and creating the conditions for scaling up and for financial viability.

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Francesc Trillas - Gianandrea Staffiero

REGULATORY REFORM, DEVELOPMENT AND DISTRIBUTIVE CONCERNS

Abstract: This survey reviews the relationship between regulation and distribution, focusing on regulatory reform in developing countries. The characteristics of these countries impose constraints on appropriate regulatory policies. These constraints condition: i) the terms of the trade-off between firms' rents and efficiency, including the commitment problem in the presence of sunk investments; and ii) the probability of success of removing cross-subsidies. The choices made at reforming infrastructure industries may have a significant impact on perceived distribution and development, and this impact will drive attitudes toward reform. Distributive problems are channeled through politics and institutions, conditioning the potential solutions to the commitment problem. These issues have been extensively explored by the academic literature, which provides guidance on how to address second-generation regulatory reforms.

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Tuinji Adegbesan

STRATEGIC FACTOR MARKETS: BARGAINING, SCARCITY, AND RESOURCE COMPLEMENTARITY

Abstract: Strategic factor market theory suggests that without luck or asymmetric expectations, firms cannot appropriate gains from acquired resources. Adopting the bargaining perspective on resource advantage, we hold that this is only true in the absence of resource complementarity. We extend factor market theory to account for resource complementarity, and we show that firms can profit when they exhibit superior complementarity to target resources, even in the absence of asymmetric expectations. Thus, we provide an alternative interpretation of managers' recent emphasis on externally acquired resources.

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Tuinji Adegbesan - Matthew J. Higgins

INTRA-ALLIANCE PERFORMANCE, CONTROL RIGHTS, AND TODAY'S SPLIT OF TOMORROW'S VALUE

Abstract: Although the differential benefits reaped by individual partners are a major determinant of the performance impact of strategic alliances, previous analysis has faced methodological challenges. In response we propose a measure for relative value appropriation and an explicit theoretical framework for predicting its variation in terms of relative bargaining position. With a sample of 180 biotechnology R&D alliances, we are thus able to explain variation in value appropriation across partner types as well as individual partners of each type.

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Tuinji Adegbesan - Joan E. Ricart

WHAT DO WE REALLY KNOW ABOUT WHEN TECHNOLOGICAL INNOVATION IMPROVES PERFORMANCE (AND WHEN IT DOES NOT)?

Abstract: Most approaches to innovation bear the implicit assumption that increased innovativeness leads to improved organizational performance. Thus, more attention has been focused on innovativeness than on innovation performance; on novelty than on value. However, recent empirical evidence calls into question the unqualified optimism surrounding innovation, and leads us to ask what we really know about when technological innovation improves performance.

In this paper, we seek to make a contribution by presenting the results of an exhaustive review of extant knowledge on the outcomes of technological innovation. Our synthesis of the literature allows us to relate in one parsimonious model the drivers and moderators of the antecedents, technical outcomes, and performance outcomes of technological innovation and technological change. We also make sense of the proliferation of terms, and consequent terminological ambiguity, which characterizes a lot of work on technological innovation. Finally, in the light of the model presented and recent developments in work on firm capabilities, we indicate possible avenues for further development of this critical area of research.

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Tuinji Adegbesan - Joan E. Ricart

APPROPRIATING VALUE FROM EXTERNAL TECHNOLOGY: ABSORPTIVE CAPACITY DIMENSIONS AND INNOVATION STRATEGY

Abstract: Innovation from external sources has continued to grow in importance in recent years, in defiance of conventional wisdom advocating internal sourcing of core technologies. One important reason for the previous emphasis on internal sourcing of core technologies relates to concerns of horizontal and vertical appropriability. Thus, the question arises of whether and how firms can reconcile horizontal and vertical appropriability



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with the rise of the external sourcing of new technologies. Must firms sacrifice value appropriation on the altar of value creation? To answer these questions, we delve beneath individual technological innovations to examine the technical and market capabilities underlying them. Specifically, we show how the amount of value a firm stands to appropriate relative to competitors and relative to technology suppliers depends on the fit between its innovation strategy and its previous investments in distinct dimensions of absorptive capacity. At the same time, we also show how first-order capabilities and dynamic capabilities interact to determine firm performance. Thus, we shed light on how and when the move to 'open' innovation will affect the amount of value innovating firms stand to appropriate.

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Silvia Ayuso - Miguel A. Rodríguez - Roberto García - Miguel A. Ariño

MAXIMIZING STAKEHOLDERS' INTERESTS: AN EMPIRICAL ANALYSIS OF THE STAKEHOLDER APPROACH TO CORPORATE GOVERNANCE

Abstract: The purpose of this paper is to build on the emerging stakeholder model of corporate governance by analyzing the CSR function at board level, board diversity, and stakeholder engagement, and how it relates to financial performance. Based on an empirical study of an international sample of large companies, we find board responsibility for CSR to be a key factor in promoting engagement with primary and secondary stakeholders of the firm. Depending on the legal tradition of the country in which the company is based, we find evidence that board diversity and stakeholder engagement are positively correlated with firm financial performance.

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Bruno Cassiman - Reinhilde Veugelers - Pluvia Zuniga
SCIENCE LINKAGES AND INNOVATION PERFORMANCE: AN ANALYSIS ON CIS-3 FIRMS IN BELGIUM

Abstract: This paper examines the diversity of linkages of firms to science and their effect on innovation performance for a sample of Belgian firms (CIS-3). While at the sectoral level links to science are highly related to the R&D intensity of the sector, we show that there is considerable heterogeneity in the type of links to science at the firm level. Overall, firms with a science linkage –which can be of various sorts– have superior innovation performance, in particular with respect to innovations new to the market. At the invention level, our findings confirm that patents from firms engaged in science are more frequently cited and have a broader technological and geographical impact, but we show that it is crucial to distinguish between direct science links at the invention level and indirect science links at the firm level to encounter these distinct positive effects of science links. Therefore, Science & Technology indicators should control for both invention-level and firm-level science links to really account for the effect of these industry-science links.

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Bruno Cassiman - Reinhilde Veugelers

ARE EXTERNAL TECHNOLOGY SOURCING STRATEGIES SUBSTITUTES OR COMPLEMENTS? THE CASE OF EMBODIED VERSUS DISEMBODIED TECHNOLOGY ACQUISITION

Abstract: This paper analyzes the choice between different external technology sourcing activities of a firm. On the one hand, the firm can acquire new technology which is embodied in personnel. On the other hand, the firm can obtain new technology disembodied through a licensing agreement or by outsourcing the technology development from an R&D contractor. Building on Cassiman and Veugelers (2006), we test whether embodied and disembodied technology acquisitions are complementary activities or rather behave as substitute technology acquisition alternatives. We find that while internal and external technology acquisition are complementary innovation activities, the actual choice of external technology sourcing between embodied or disembodied modes is substitutive for smaller firms. The evidence for larger firms suggests that different external technology sourcing activities are complementary, but in this case the results are suggestive although not strongly significant.

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Pablo Fernández - José María Carabias

RENTABILIDAD Y CREACION DE VALOR DEL IBEX 35: 1992-2006

Abstract: 2006 fue el año de mayor creación de valor en la historia del IBEX 35: 118 millardos de euros. La rentabilidad (teniendo en cuenta los dividendos) fue del 36%. Entre 1992 y 2005, la rentabilidad media fue del 15,4%, y la creación de valor para los accionistas, 196 millardos de euros. Las empresas del IBEX 35 crearon (en su conjunto) valor para sus accionistas todos los años, excepto en 1992, 1994, 2000, 2001 y 2002.

Sin embargo, una parte importante de la rentabilidad media (un 5,2%) y de la creación de valor se debió al descenso de los tipos de interés en el período. Eliminando el efecto de los tipos de interés, la rentabilidad para los accionistas fue inferior a la rentabilidad exigida.

El volumen de negociación de las empresas del IBEX 35 superó el billón de euros en 2006 y ha pasado de ser un 30% de la capitalización en 1992 a ser el doble en 2006. Las empresas del IBEX 35 concentran más del 90% de la negociación del mercado continuo.

Las empresas pequeñas fueron, en media, más rentables que las grandes, y la rentabilidad media del Índice Total de la Bolsa de Madrid (ITBM) fue del 16,5%, superior a la del IBEX 35 ajustado por dividendos (15,4%).

En los cuarenta días anteriores al anuncio de la entrada en el IBEX 35, las empresas que entraron tuvieron en media una rentabilidad un 10,1% superior a la del IBEX 35, y las que salieron tuvieron en media una rentabilidad un 5,9% inferior.

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Heiko Gerlach

STOCHASTIC MARKET SHARING, PARTIAL COMMUNICATION AND COLLUSION

Abstract: This paper analyzes the role of communication between firms in an infinitely repeated Bertrand game in which firms receive an imperfect private signal of a common value i.i.d. demand shock. It is shown that firms can use stochastic, inter-temporal market sharing as a perfect substitute for communication in low-demand states. Therefore, partial communication in high-demand states is sufficient to achieve the most collusive, full communication outcome. And partial communication in low-demand states does not improve on the equilibrium without communication. Communication in high-demand states allows firms to coordinate their pricing, choose the most efficient uninformed price and avoid price wars. I demonstrate that under some conditions consumers are better off with communication among colluding firms.

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Pablo Fernández - José María Carabias

CREACION DE VALOR PARA LOS ACCIONISTAS DE REPSOL - 1991-2006

Abstract: En este documento se cuantifica la creación de valor para los accionistas de Repsol entre diciembre de 1991 y diciembre de 2006. En ese período, el aumento de la capitalización de Repsol fue de 27.479 millones de euros; el aumento del valor para los accionistas fue de 25.346 millones de euros, y la creación de valor para los accionistas fue de 7.401 millones de euros (expresado en euros de 2006).

La rentabilidad media anual para los accionistas de Repsol fue del 14,1%, mientras que la del IBEX 35 fue del 15,4%. La inflación media fue del 3,4%. La rentabilidad para los accionistas de Repsol fue positiva todos los años, excepto en 1994 y en 2000-2002.

La capitalización de Repsol durante estos años osciló entre el 6% y el 10,8% de la capitalización del IBEX 35. En diciembre de 1991, Repsol fue la tercera empresa por capitalización (tras Telefónica y Endesa). En 2006, Repsol fue la quinta empresa por capitalización del IBEX 35 (tras SAN, Telefónica, BBVA y Endesa).

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Pablo Fernández - José María Carabias

RENTABILIDAD Y CREACION DE VALOR DE LAS EMPRESAS ESPAÑOLAS EN 2006 (Y EN EL PERIODO 1993-2006)

Abstract: En 2006, Banco Santander fue –entre las 123 empresas que cotizaron en el mercado continuo– la que más valor creó para sus accionistas, seguida de Endesa, Telefónica, Arcelor, BBVA e Iberdrola. Veintiuna empresas destruyeron valor, siendo EADS la que más valor destruyó.

La empresa más rentable para sus accionistas en 2006 fue Inmocaral (en 2005 fue Sniace). Sólo doce empresas tuvieron una rentabilidad negativa para sus accionistas, y 64 de las 123 proporcionaron

una rentabilidad inferior a la del IBEX 35 (36%). 107 empresas proporcionaron a sus accionistas una rentabilidad superior a la de los bonos del Estado.

Las diez mayores empresas supusieron el 57% de la capitalización total. Las 37 empresas más pequeñas sólo representaron el 1% de la capitalización total.

En los años 1994, 1997-1998, 2000-2006, y en el promedio del período 1992-2006, las empresas pequeñas fueron más rentables que las grandes.

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Alexander P. Groh - Heinrich Liechtenstein - Karsten Lieser

THE ATTRACTIVENESS OF CENTRAL EASTERN EUROPEAN COUNTRIES FOR VENTURE CAPITAL AND PRIVATE EQUITY INVESTORS

Abstract: We address the attractiveness of Central Eastern European countries for VC/PE investors by the construction of a composite index. For the index composition we refer to the results of numerous prior research papers that investigate relevant parameters determining entrepreneurial activity and/or the engagements of institutional investors. We aggregate the index via five different methods and receive country rankings that vary only slightly, signaling a robust index calculation. We clearly identify six tier groups of attractiveness for all of our sample countries. We compare our index with the actual fundraising activities in the particular countries and reveal a reasonable correlation of both figures. The results highlight the strengths and weaknesses of the particular economies and provide guidelines for political improvements and institutional investors' country allocations.

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NOTE: Studies may be consulted on the Internet at

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

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Nuria Chinchilla - Consuelo León - Miguel A. Canela - Miguel A. Ariño - Valeria Quiroga

ANALISIS SECTORIAL DE LAS POLITICAS DE CONCILIACION. CONCLUSIONES DEL ESTUDIO IFREI 2006 BASADO EN 360 EMPRESAS

Abstract: El presente estudio realizado en 2006 sobre las políticas de conciliación de las empresas españolas está basado en la encuesta IFREI (Índice de la Empresa Familiarmente Responsable) y en él han participado un total de 360 empresas (271 grandes y 89 pymes). El estudio analiza por primera vez, desde su inicio en 1999, los resultados por sectores de actividad: telecomunicaciones, banca, seguros y salud son los sectores mejor posicionados. En cuanto a la evolución de las medidas en sí, hay que destacar que



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algunas casi duplican su uso, como es el caso de mantener las ventajas laborales y respaldar la reinserción después de un permiso, hecho que contrasta con la bajada de uso de la excedencia por cuidado de un familiar. Otras medidas suben exponencialmente, como la jornada a tiempo parcial y la reducida, el horario laboral flexible, seguro de accidentes y sustitución del personal que está de permiso.

Del estudio se deduce que casi la mitad de las empresas españolas se sitúan en el cuadrante C según la clasificación del modelo EFR, es decir, son discrecionalmente contaminantes del entorno o, lo que es lo mismo, han puesto en marcha algunas políticas, pero les falta el compromiso formal de la alta dirección; además, el tema no forma parte de la estrategia de la compañía, aunque figura en la agenda de temas pendientes a implantar.

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Pablo Cardona - Ignasi Comillas - Carlos Rey - Giuseppe Amoroso - Pierluigi Mantovani - José A. Fonseca - Eduardo Pereira

LA CULTURA EMPRESARIAL: ESTUDIO EMPIRICO EN EMPRESAS ESPAÑOLAS Y PORTUGUESAS

Abstract: El presente estudio realiza un recorrido por los principales resultados y conclusiones obtenidos a través de la investigación del estado de la cultura en 65 empresas de España y Portugal de diferentes tamaños y sectores.

La materia de investigación recae sobre aquellas dimensiones que pueden considerarse como fundamentales en el desarrollo cultural de una empresa: 1) intensidad del compromiso de los miembros de la organización; 2) coherencia cultural, y 3) capacidad de acción.

Studies and Monographs

Juan Roure - Luis Segurado

"High growth and quality of entrepreneurship in the Netherlands: The 'growth dream': Challenges and managerial pitfalls to avoid", in "Entrepreneurship in the Netherlands. High growth enterprises; running fast but still keeping control", edited by EIM Business & Policy Research, December 2006, pages 49-73.

Abstract: Based on the observation and input from programs, forums and networks of dynamic entrepreneurial enterprises such as the European Growth Plus Association or the Entrepreneur of the Year Award, and the contributions of some specific research works and surveys based on different populations of high growth firms, the authors attempt to reflect on the some selected managerial pitfalls that seem to have an impact on firms' ability to achieve sustainable growth in current circumstances. They are: lack of entrepreneurial ambition, lack of focus, lack of an internalized opportunity screening process, lack of a proactive growth-driven approach to funding, lack of a superior management team, lack of

an active governance system, and lack of a flexible approach for implementing new growth options and ownership structure.

Other publications

Rudy Aernoudt - Amparo San José - Juan Roure

"Executive forum: Public support for the business angel market in Europe. A critical review", *Venture Capital*, Vol. 9, No 1, January 2007, pages 71-84.

Abstract: Various levels of government have implemented instruments to promote business angel investment, often mirroring those used to support the institutional venture capital market. The paper reviews the existing practices at a point in time when intervention in the field of business angels is becoming increasingly popular in Europe. Governments are looking for innovative ways to enhance business angel investments, and the evolution of policy in the field is rather trial-and-error based. We see a shift from classical support for network creation and improvement of the fiscal environment toward guarantee schemes for angel investments and coinvestment schemes. This more recent approach is analysed in a detailed case study of the Belgian Business Angels Plus (BA₊) scheme, which matches the financing provided by a business angel investor and the entrepreneur. In its initial two and a half years of operation the BA₊ scheme has received close to 70 applications, of which just over 20 have been rejected. The characteristics of the deals financed by BA₊ applicants are similar to those found in the average investment in Belgium. Following up the companies applying for the BA₊ loan shows that the programme has so far avoided incurring significant losses. However, it is impossible to determine whether lack of finance was one of the reasons for the bankruptcy of the companies that did not secure the additional loan.

Antonio Argandoña

"Milton Friedman (1912-2006)", *Cuadernos de Información Económica*, No 195, November-December 2006, pages 169-174.

Abstract: Milton Friedman es, sin duda, uno de los economistas más brillantes e influyentes del siglo XX. Su reciente fallecimiento ofrece la oportunidad de comentar su figura y sus aportaciones a la ciencia económica, a la política económica y al pensamiento liberal. Se explican los fundamentos metodológicos, sus aportaciones a la teoría monetaria, sus puntos de vista sobre las políticas estabilizadoras y su peculiar manera de enfocar la política monetaria, con especial énfasis en su defensa de la libertad frente a las limitaciones de la competencia y frente al papel dominante del Estado.

Africa Ariño

"Las alianzas estratégicas: Una opción para potenciar el crecimiento de la empresa (I)", *Estrategia Financiera*, No 236, February 2007, pages 45-57.

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Abstract: Presenta las alianzas estratégicas como una opción con la que cuentan las empresas familiares para potenciar su crecimiento. Se consideran las ventajas e inconvenientes de las alianzas, así como los aspectos más importantes a considerar a lo largo del ciclo de vida de una alianza hasta su finalización. Junto a consideraciones generales aplicables a alianzas de cualquier tipo de empresa, se plantean aspectos específicos a considerar por parte de las empresas familiares.

Bart Clarysse - Juan Roure - Amparo San José
"Teaching entrepreneurship: Selected cases from Gate2Growth", proceedings of the G2G European Teaching Case Workshop, *Academic Network*, February 2007, 318 pages.

Abstract: This book is the result of the European Teaching Case Initiative from the Gate2Growth Academic Network on Entrepreneurship, Innovation and Finance. The Gate2Growth Network launched an annual call among its members to translate more fundamental research into teaching notes and complement them with interesting teaching cases. Since 2004 the network has funded the writing of 25 teaching cases. This book contains a selection of 13 of those cases and serves as the proceedings of the G2G European Teaching Case Workshop, held at IESE Business School in Barcelona in December 2006. The cases give several insights into the workings of start-ups and growth-oriented companies and the behavior of entrepreneurs in a broad set of sectors, with a variable high technology component. Entrepreneurship is seen from the perspective of financiers, second-generation entrepreneurs, or entrepreneurs by acquisition.

Domènec Melé
"Mainstream theories on normative corporate social responsibility: Analysis from Catholic social thought", proceedings of the Sixth International Symposium on Catholic Social Thought and Management Education, Pontificia Università San Tommaso (Angelicum), Rome, October 2006, 13 pages.

Abstract: In spite of the variety and complexity of approaches to Corporate Social Responsibility (CSR), some theories have become mainstream. Notable examples are: a) Corporate Social Performance Theory; b) Fiduciary Capitalism Theory; c) Stakeholder Theory, and d) Corporate Citizenship Theory. These theories generally include a notion of the human being and a philosophical concept of the firm and society, albeit sometimes only implicitly. Catholic Social Teaching (CST) also has a notion of the human being, the firm and society, which we can contrast with those of mainstream CSR theories. The purpose of this paper is to present the above-mentioned theories on CSR and to outline their philosophical bases, and then to evaluate them from the perspective of Catholic Social Teaching.

Ignacio Urrutia
"El nuevo mercado financiero de proyectos sociales. Una respuesta del capitalismo para resolver problemas sociales", *Partida Doble*, No 184, January 2007, pages 100-113.

Abstract: Este artículo se centra en la figura del emprendedor social y en la posibilidad de crear un mercado financiero de proyectos sociales, como mecanismo para resolver los problemas sociales. Para ello, aborda la explicación del modelo actual de financiación de la acción social, presenta propuestas de innovación en el reparto de fondos y hace una segmentación de los tipos de inversores potenciales para este tipo de proyectos.

Conferences and Seminars

Manel Baucells
On January 26-27, attended in Rovereto the Annual Meeting, organized by the European Association for Decision Making (EADM), where he presented the paper "Does more money buy you more happiness?", co-authored with Rakesh K. Sarin.

Abstract: Why do we believe that more money will buy us more happiness (when in fact it does not)? In this paper, we propose a model to explain this puzzle. The model incorporates both adaptation and social comparison. A rational person who fully accounts for the dynamics of these factors would indeed buy more happiness with money. We argue that projection bias, i.e. the tendency to project into the future our current reference levels, prevents people from correctly calculating the utility obtained from consumption. Projection bias has two effects. First, it makes people overrate the happiness they will obtain from money. Second, it makes people misallocate the consumption budget, so that they consume too much at the beginning of the planning horizon, or consume too much of adaptive goods.

Philip Moscoso
On December 17-19, attended in Brussels a Workshop on Human and Organizational Factors in Planning and Scheduling, sponsored by the European Science Foundation, and hosted by COST-ESF, where he presented the paper "From relationship dynamics to relationship quality".

Abstract: Within the research on supply chain (SC) relationships, two major work streams can be differentiated. First, there has been a fair amount of work which primarily tries to explain the nature of relationship processes. As a result, there is a considerable body of knowledge on the interaction between the various dimensions of SC relationships. The SC relationship that has probably received most attention from POM researchers is the buyer-supplier relationship. The second stream of research has focused on the impact of SC relationship dimensions on supply chain, manufacturing, or product design performance. As



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relationship quality is affected by several internal and external factors, we study how its impact is subject to those factors.

On February 20-21, attended in Brugg, Switzerland, the HOPS Workshop, organized by the European Science Foundation, COST Action A 29, where he presented the paper "Key factors determining the planning bullwhip: An integrated framework for analysis and design".

Abstract: In industrial practice, production planning is typically done following a hierarchical approach. Such an approach divides a large, complex planning problem into less complex sub-problems. One then solves the set of problems in a sequential fashion, increasing the level of detail and decreasing the planning horizon, whereby the higher planning level imposes constraints on the lower planning level. In such hierarchical production planning structures, however, decisions by planners at the various levels may lead to what is called a planning bullwhip. This is because the process of generating detailed plans on the basis of given aggregate plans, can not only introduce sub-optimality, it can also lead to inconsistencies and infeasibilities, or even become unstable. In a previous paper we have empirically tested occurrence of the planning bullwhip. In this paper, we aim first to extend our conceptual understanding of the planning bullwhip. Secondly, we intend to provide a framework for the analysis of the planning bullwhip and to operationalize it so as to eventually develop some design guidelines for reducing the phenomenon and its impact. To achieve this, we postulate some key planning system attributes that we believe fundamentally determine occurrence of the planning bullwhip phenomenon, such as planning frequency, number of planning levels, system inertia, and interrelatedness of planning decisions.

Fernando Peñalva

On February 1, attended in Granada the X Semana Interdepartamental de Contabilidad, organized by the University of Granada and the University of Almería, where he presented the paper "Lecciones de responsabilidad social corporativa del Caso Enron".

Abstract: El caso Enron es uno de los mayores y más complejos desastres empresariales de la historia. Es único, pues se produjeron serias fracturas en casi todos sus órganos de gobierno corporativo: el consejo de administración, los gestores de la empresa, las políticas de incentivos y remuneración, el auditor, los asesores legales, los reguladores contables y los mercados de capital.

Julia Prats

On January 7, attended in Chicago the NBER Entrepreneurship and Innovation Policy & the Economy Program Conference, where she presented the paper "Does stardom affect entrepreneurial mobility?", co-authored with Boris Groysberg and Ashish Nanda.

Abstract: Our study empirically tests ideas developed in Lucas (1978), Rosen (1982) and Irigoyen (2002), and contributes to the studies on the relationship between workers' human capital and their decision to become self-employed (Evans and Leighton, 1989; Taylor, 1999; Dunn and Holtz-Eakin, 2000; Burke et al., 2000) and their probability to survive as entrepreneurs (Holtz-Eakin et al., 1994). Analysis from a panel data set of equity research analysts in investment banks over 1988-1996 reveals that star analysts are more likely than non-star analysts to become entrepreneurs. Furthermore, we find that ventures started by star analysts have a higher probability of survival than ventures established by non-star analysts. The probability of venture survival is also procyclical with the performance of the economy. Extending traditional theories of entrepreneurship and labor mobility, our results also suggest that drivers of turnover vary by destination: (a) turnover to entrepreneurship, and (b) other turnover. In contrast to turnover to entrepreneurship, star analysts are less likely to move to other firms than non-star analysts. Whereas the probability of entrepreneurial turnover is not driven by situational factors, the probability of turnover to other firms is inversely affected by the quality of the research department and firm performance.

Xavier Vives

On January 15-16, attended in Toulouse the conference "The economics of energy markets", organized by IDEI, where he presented the paper "Strategic supply function competition with private information".

Abstract: The paper presents a partial equilibrium model of supply function competition when firms have private information about their uncertain costs. A linear Bayesian equilibrium is characterized and comparative static results are derived. As the market grows large the equilibrium becomes competitive and we obtain an approximation to how many competitors are needed to have a certain degree of competitiveness. Results are compared with the outcome of Cournot competition. It is found that with supply function competition, and in contrast to Cournot competition, competitiveness is affected by the parameters of the information structure. In particular, supply functions are steeper with more noise in the private signals or more correlation among the costs parameters. Furthermore, competition in supply functions aggregates the dispersed information of firms while Cournot competition does not. The implication is that with the former the only source of deadweight loss is market power, while with the latter we have to add private information.

IESE - Research Seminars

Economics

January 10

Speaker: Julia Roloff, International Graduate School Zittau
"The focus of stakeholder management: Organizations or issues?"

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Abstract: From an analysis of the role of companies in multi-stakeholder networks and a critical review of stakeholder theory a stakeholder management approach is developed that refers to issues rather than to a focal organization. Issue-focused stakeholder management supplements organization-focused stakeholder management when complex problems and challenges appear that cannot be approached by the company on its own. Due to its deliberative character it enables corporations to cope with numerous and at times contradictory stakeholder demands and enhances their legitimacy.

January 29

Speaker: Ricardo Serrano-Padial, University of California, San Diego
"Strategic foundations of prediction markets and the efficient markets hypothesis"

Abstract: This paper studies information aggregation in pure common value double auctions with a continuum of traders. This trade environment captures some of the main features of prediction markets. The population includes both strategic traders and non-strategic (naïve) agents whose bidding behavior is not influenced by opponents' equilibrium strategies. Existence and uniqueness of monotone equilibrium prices is shown under mild conditions on the distribution of naïve bids.

In any such equilibrium, the mapping from asset values to prices has a domain split into two distinct areas: a revealing region, where prices equal values, and a non-revealing region. There is a strictly positive lower bound on the share of naïve traders below which prices are always fully revealing and an upper bound beyond which prices are almost nowhere revealing. This indicates that, contrary to prevailing views, non-negligible levels of noise or liquidity trade are compatible with perfect information aggregation, although even moderate levels of noise can lead to nowhere revealing prices. An empirical method to distinguish between the revealing and non-revealing regions is suggested.

January 30

Speaker: Jesús Fernández-Huertas, Columbia University
"New evidence on emigrant selection"

Abstract: This paper explains the extent to which Mexican emigrants to the United States are negatively selected, that is, have lower skills than individuals who remain in Mexico.

Previous studies have been limited by the lack of nationally representative longitudinal data. This one uses a newly available household survey, which identifies emigrants before they leave and allows a direct comparison to non-migrants. I find that, on average, US-bound Mexican emigrants from 2000 to 2004 earn a lower wage and have less schooling years than individuals who remain in Mexico, evidence of negative selection.

This supports the original hypothesis of Borjas (AER, 1987) and argues against recent findings, notably those of Chiquiar and Hanson (JPE, 2005). The discrepancy with the latter is primarily due to an under-count of unskilled migrants in US sources and secondarily to the omission of unobservables in their methodology.

February 2

Speaker: Jing-Yuan Chiou, National Bureau of Economic Research

"The design of post-grant patent challenges"

Abstract: This paper investigates the optimal design of a patent challenge mechanism through the re-allocation of patent rights, in which a successful challenger is rewarded with partial patent rights previously granted to the patentee. Two incentive problems are critical to the shape of the optimal mechanism: How to provide a potential challenger with adequate incentives to look for the defeating prior art, and whether and how to prevent collusion once the prior art has been found. Transferring patent rights to a successful challenger encourages search and deters collusion; it also reduces costly opportunistic patenting and therefore improves patent application quality. However, from an ex post point of view, over-search ensues when collusion is severe or when the challenger is the only user of the technology. The optimal policy, then, calls for a careful balance between these costs and benefits. The paper also shows that when multiple players search sequentially, lower patent quality may alleviate the collusion problem and the optimal policy may deter collusion in the later stage while accommodating collusion between the patent-holder and the fact-finder after the early stage of search. Partial collusion-deterrence preserves the subsequent searcher's incentives and reduces the cost of fighting collusion.

February 5

Speaker: Jeanine Thal, European University Institute

"On the signalling and feedback effects of umbrella branding"

Abstract: I consider an adverse selection model of product quality to analyze a firm's incentives to sell different products under an umbrella brand. My main result is that umbrella branding can signal positive quality correlation to consumers, even in the absence of any exogenous "technological" correlation between the concerned products. In any equilibrium with positive endogenous quality correlation, the decision to umbrella brand has a positive signalling effect on the price consumers are willing to pay for at least one of the products. Moreover, subsequent successes (failures) of either one of the products have positive (negative) feedback effects on the other product. For such equilibria to exist it must be that: (i) consumers' prior information about product qualities is limited; (ii) the markets for the different products are sufficiently symmetric; (iii) potential quality differences are substantial; and (iv) firms attach sufficient weight to the repeat sales of all products. There are no equilibria in which umbrella branding either fully certifies high quality or signals negative quality correlation.

February 7

Speaker: Wioletta Dziuda, Princeton University

"Strategic argumentation"



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Abstract: I analyze a communication game in which an uninformed decision maker chooses an action based on the advice of an informed but possibly biased expert. The quality of each alternative is described by a set of arguments, and each argument favors one of two alternatives. Each argument is verifiable, but the number of arguments is not. The expert selects a subset of arguments to reveal to the decision maker.

In all equilibria the biased expert exaggerates his reports in favor of his preference, yet he does not suppress all of the unfavorable information. All equilibria with continuous belief function are outcome equivalent and most informative, and a unique equilibrium survives when a small cost of concealing information is added. In every continuous equilibrium, if the expert reports many arguments, the decision maker can infer the expert's bias, and she bases her choice solely on the number of arguments that favor the expert; otherwise the expert's report is ignored. If the decision maker expects the expert to be honest, the biased expert inflates his reports more.

If experts differ in the number of arguments they observe, a high-quality expert is better informed, but the decision maker may be able to infer more information from the low-quality expert's reports.

February 13

Speaker: Kostis Hatzitaskos, University of California, Berkeley
"U.S. Automobile demand estimation with multiple unobservable product characteristics"

Abstract: Consider discrete choice models given individual choice data with accompanying demographics. I discuss existing utility specifications that either ignore demographics as direct determinants of utility, or estimate such effects separately for each choice. I show the former are too restrictive, ruling out patterns very plausible for such data. I also argue that the latter may be too demanding in parameters in data sets where the number of choice alternatives is large relative to the number of observations. I suggest a multiple unobservable characteristics utility specification as an alternative in such situations. This specification is nested within the more flexible of the aforementioned models, and consists of a trade-off of some flexibility for a significant reduction in the number of parameters to be estimated. I illustrate this technique by estimating demand for automobiles in the U.S. using individual choice data from the Consumer Expenditure Survey.

February 21

Speaker: J. Daniel Aromi, University of Maryland
"Asymmetric supply function equilibrium with applications to investment decisions in the electricity industry"

Abstract: The literature on supply function equilibrium (SFE) studies models of uniform-price auctions with complete information. Most results in this literature have been limited to symmetric environments, while asymmetric environments have proved to be very difficult to analyze. However, for almost any real-world application (e.g., electricity markets), an understanding is

needed of SFE models in which different bidders exhibit different sizes and valuations.

In this paper, significant progress is made toward filling this gap. I prove the existence and uniqueness of equilibrium in an asymmetric SFE model. In addition, I propose a simple algorithm to calculate numerically the unique equilibrium. As an application, a model of investment decisions is considered that uses the asymmetric SFE as an input. In this model, firms can invest in different technologies, each characterized by distinct variable and fixed costs. For this application, an asymmetric model is needed since the investment decisions endogenously generate differences in installed capacity.

This model is used to simulate investment decisions in the electricity industry. The focus is on the total generating capacity, the equilibrium portfolio of different generating technologies, and the analysis of consumer welfare under different regulatory regimes.

Finance

January 16

Speaker: Antonio Mello, University of Wisconsin
"Arbitrage trading, security design and risk management"

Abstract: This research studies the optimal hedging and production strategies of financially constrained firms in imperfectly competitive markets. A hedging policy that minimizes the volatility of earnings generally reduces a firm's financial constraints most effectively, but makes it impossible for the firm to gain a significant financial advantage over its competitors. Because a financial advantage allows a firm to appropriate future market share, firms do not always hedge their entire risk exposure even in the absence of transaction costs.

Oligopolistic firms hedge the least when they face intense competition from firms in similar financial condition. While firms also hedge different risks from their competitors, differences in their locations of production are found to be unimportant for equilibrium risk exposure. Market leaders adopt less aggressive product market strategies and their competitors more aggressive ones when firms hedge their exposures only partially.

February 9

Speaker: Hannes F. Wagner, London Business School
"Public equity issues and the scope for market timing"

Abstract: This paper studies the relevance of market timing in public equity issues. Prior research has argued that equity is mispriced in public equity issues and that managers' successful attempts to take advantage of mispricing has persistent effects on firms' capital structure. Using a sample of seasoned equity offerings and initial public offerings by U.S. firms over the period 1970 to 2004, I find evidence to reject these hypotheses. Specifically, I find that equity issuing firms are not mispriced relative to firms with similar risk characteristics. Further, there are no performance spreads between firms with differing ex-ante

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idiosyncratic opportunities to time the market. Timing opportunities are measured by financial constraints, valuation uncertainty, the informational content of stock prices and price momentum. I also do not find high persistence of changes in capital structure as firms instead actively re-leverage through increased debt issuance following equity issues. I do, however, find evidence consistent with equity issues being motivated both by the financing of investment and equity market conditions.

February 12

Speaker: Anna Obizhaeva, Sloan School of Management, MIT
"Information vs. liquidity: Evidence from portfolio transition trades"

Abstract: In this paper, I study the evolution of stock prices after trades with different underlying motives. A novel data set of portfolio transitions allows me to identify trades that are most likely induced by either information-related or liquidity-related factors. My findings provide supporting evidence for a long-standing tenet of market microstructure stating that information-motivated and liquidity-motivated transactions generate different price dynamics. In fact, while information-motivated portfolio transition trades permanently shift stock prices to new levels, the temporary price pressure effects of liquidity-motivated portfolio transition trades are reversed in the following weeks. Also, the analysis of price impact and market resiliency associated with transition trades reveals interesting details of how the market acquires new information and accommodates liquidity shocks. Moreover, I provide trading cost estimates for institutional investors during 2001-2005.

February 14

Speaker: Sabrina Buti, MPSE - Toulouse University
"A challenger to the limit order book: The NYSE specialist"

Abstract: This paper gives a new answer to the challenging question raised by Glosten (1994): "Is the electronic order book inevitable?". While the order book enables traders to compete to supply anonymous liquidity, the specialist system enables one to reap the benefits from repeated interaction.

We compare a competitive limit order book and a limit order book with a specialist, like the NYSE. Thanks to non-anonymous interaction, mediated by brokers, uninformed investors can obtain good liquidity from the specialist. This, however, creates an adverse selection problem on the limit order book. Market liquidity and social welfare are improved by the specialist if adverse selection is severe and if brokers have long horizons, so that reputation becomes a matter of concern to them. In contrast, if asymmetric information is limited, spreads are wider and utilitarian welfare is lower when the specialist competes with the limit order book than in a pure limit order book market.

February 19

Speaker: Iulian Obreja, Carnegie Mellon University
"Financial leverage and the cross-section of stock returns"

Abstract: Firm size and book-to-market equity have proven to be important explanatory variables for the cross-sectional distribution of expected equity returns. The role played by financial leverage, however, has been more controversial. Does leverage contain information above and beyond size and book-to-market equity? Empirically, the issue has received considerable attention, but the evidence is mixed. This paper presents a structural model that can address this issue. Firms maximize the wealth of their shareholders by making investment and capital structure decisions. Firms derive value from two components, namely assets in place and growth options. The relative distribution of assets in place and growth options is the main determinant of equity risk premia. For all-equity-financed firms, this distribution can be summarized in terms of firm-specific productivity and two firm variables, namely book-to-market equity and firm size. For firms financed with both equity and debt, this distribution depends also on financial leverage. Firm size and book-to-market equity cannot capture the cross-sectional variation in equity returns due to financial leverage. Leveraged firms are riskier because they are stuck with too much capital, during times of low productivity. These firms cannot scale down production without increasing the likelihood of default. The model can generate qualitatively, and sometimes quantitatively, the cross-sectional properties of equity returns associated with firm characteristics such as book-to-market equity, firm size, market leverage, book leverage and debt/equity ratio.

February 20

Speaker: Astrid V. Schornick, London Business School
"International stock market volatilities and comovements: Effects of differences in opinion and portfolio constraints"

Abstract: The increasing liberalization of global financial markets has renewed interest in the effect of capital market imperfections on the linkages between international stock returns. This paper studies how investors' portfolio constraints and differences in opinion affect expected returns, volatilities, and comovement between stock markets in an international setting. The model considers two countries, whose representative agents may disagree about investment opportunities. In contrast to the previous literature, both investors face a portfolio constraint. The results show that studying constraints in isolation and abstracting away from inherent differences between investors can yield misleading conclusions. When dispersion of beliefs is high –and thus constraints bind more severely– the correlation between stock returns will be higher than they would be if investors were unconstrained. In contrast, when dispersion of beliefs is low, correlations will fall. While the effect of a single constraint on return volatility is negligible, multiple constraints will unambiguously lower the volatility of a stock affected by both constraints. As dispersion of beliefs increases, volatility falls and expected excess returns rise.



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February 23

Speaker: Pedro A. C. Saffi, London Business School

"Expected returns and liquidity risk: Does entrepreneurial income matter?"

Abstract: This paper studies the effects of jointly incorporating liquidity risk and non-tradeable wealth in a single asset pricing equation. First, I propose an overlapping-generations model with random endowment shocks and liquidity risk, evaluating their joint impact on expected returns.

The model presents a single-factor asset pricing equation with a new term capturing the covariance between assets' liquidities and non-tradeable wealth. In this economy, assets with higher liquidity or returns when non-tradeable wealth is low command lower expected returns.

Second, I investigate whether risks associated to liquidity are priced after including non-tradeable wealth due to entrepreneurial income. I test the model on equally and value-weighted portfolios sorted by illiquidity levels, illiquidity variation and size, using U.S. stock data from January 1962 to December 2004. The extra terms due to entrepreneurial income reduces liquidity risk premia by almost 40%, with an impact of -0.45% per year on expected returns of value-weighted illiquidity-sorted portfolios. Overall, liquidity risk as a whole has a yearly premium equal to 1.06%. However, liquidity levels are much more important and have a premium of 6.14% per year, contributing to most of the explanatory gains of the model.

February 26

Speaker: Hervé Roche, Instituto Tecnológico Autónomo de México

"Asset selection and under-diversification with financial constraints and income: Implications for household portfolio studies"

Abstract: We offer a rational explanation for the observed under-diversification of household portfolios in a complete market, partial equilibrium setting with an investor with CRRA preferences, whose investment opportunity set includes both a riskless asset and multiple risky assets, and who receives an income stream. We show that when the investor faces a margin requirement based on his current wealth, he shifts his portfolio towards under-diversified portfolios with fewer assets that offer higher expected returns. We identify the ratio of financial wealth to financial wealth augmented by discounted lifetime labor income as the variable that governs the investor's behavior.

General Management

January 16

Speaker: Hector O. Rocha, IAE - Management and Business School

"Beyond the great trade-off illusion revisited"

Abstract: This paper follows the Forum's call to directly challenge "the great trade-off illusion" –that is, the belief that firms must sacrifice financial performance to meet societal obligations– by revisiting this paradigm from the standpoint of its assumptions in order to build alternative paradigms for a sustainable alignment between personal interests, firm goals, and societal needs.

The basic argument is that making explicit the dominant paradigm's assumptions on human nature, human relationships, firm goals and societal needs is the starting point for building models and making prescriptions for a sustainable alignment. After making explicit the assumptions of the dominant trade-off illusion dichotomy and their impact on practices and outcomes, this paper analyzes an alternative paradigm called "instrumental-alignment". This paper concludes that neither of these paradigms allow a sustainable alignment given their restrictive assumptions. In particular, the latter paradigm is based on the assumptions of enlightened self-interest, profit maximization, societal material well-being, and a conflict between individual and collective rationalities, which create an inherent trade-off logic that makes alignments unsustainable: they are merely instrumental to personal, firm, or societal ends.

In order to overcome the limitations of the instrumental-alignment logic, this paper proposes an "intrinsic alignment" paradigm based on the assumptions of excellence and practical or part-whole rationality. In this paradigm, both self-interest and others' interests are taken into account as ends and therefore are not assumed to be subject to trade-offs. Therefore, this paradigm allows a sustainable alignment between personal interests, firm goals, and societal needs because the alignment of interests has value in itself. This paper ends with implications for academics, managers, and policy makers at the level of assumptions, practices, and outcomes.

January 24

Speaker: Susan E. Lynch, London Business School

"Organizational restructuring: Formal boundaries, conflicting identities and tie formation"

Abstract: This paper considers how changes in formal structure and a key element of informal structure –the embeddedness of employee relationships– influence tie formation.

When employees are moved across formal groups, new relationships will form. Employees placed in the same group form relationships based on new opportunities to interact and establish new organizational identities. Employees separated into different groups form relationships based on common past experiences. Yet, moving employees also decreases the structural alignment between the informal networks and the formal position of moved employees. This conflict causes inconsistent contributions to organizational identity, decreasing new tie formation when employees are heavily embedded.

I test my arguments using a two-period panel of data on employee relationships in a financial services provider. Results show evidence of an identity conflict discount.

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January 25

Speaker: Heikki Rantakari, MIT
"Governing adaptation"

Abstract: We consider an organization in which two activities need to be coordinated with each other (standardization), and yet also need to respond to local conditions (customization). Control of the activities can be allocated among two privately informed but biased local agents (employees) and an uninformed but unbiased central agent (manager). We analyze how the allocation of decisions rights within the organization affects strategic communication among the participants and the decisions that the organization makes. By modeling the participants as strategic actors, we endogenize both the biases in equilibrium decisions, conditional on the information available to the decision-maker(s), and imperfections in the information itself, with communication between the local agents and the decision-maker(s) modeled as a cheap-talk game. The results provide a qualified formalization of the common intuition that centralization of decision-making is needed when interdependencies between activities are high. The qualifiers are: (i) the performance differential between centralized and decentralized decision-making is non-monotone in the importance of coordination; (ii) both of these common structures are dominated by asymmetric structures in sufficiently asymmetric environments; and (iii) incentive alignment provides a natural alternative to centralization.

January 26

Speaker: David G. Ross, New York University
"On bankers and their incentives under universal banking"

Abstract: This paper studies the interaction between economies of scope and employee incentives in a financial intermediation context. I argue that agency theory may explain why (i) many apparent synergies are never realized, and (ii) inherently unprofitable businesses may give rise to valuable economies of scope by aligning employee incentives with those of the employing firm. Specifically, I show that, when combined with lending, traditional commercial banking non-lending services may reduce the expected cost of banker compensation by serving as a monitoring technology. I then show that combining lending with traditional investment banking services (i.e., universal banking) may significantly increase the cost of banker compensation unless the banker is not required to screen borrowers. This suggests that specialist intermediaries may often be more profitable than universal banks and that the latter may not screen borrowers as intensively as pure lenders. The wider implication is that the ramifications of employee incentives are an important determinant of the boundaries of the firm.

January 29

Speaker: Barak S. Aharonson, University of Toronto
"The technological co-location choice – Opportunity & competition"

Abstract: Technological position is a dimension along which organizations can either differentiate from or mimic the behavior of other organizations in the technological landscape. This paper is aimed at providing empirical evidence of the specific ways in which an organization's technological position choice is impacted by the tension that arises from technological co-location; the information available to the focal firm; and the focal firm's usage of such information. In the paper, I examine how the organization's experience impacts its strategic positioning choice while facing the trade-off between the expected derivatives of co-location – opportunities and competition. I argue and find that an organization strategically positions itself in the technological landscape based not only on the information it has gathered on its technological environment but also using its own experience and information. Further, my findings show that the organization's technological positioning choice reflects the tension between opportunity and competition, which questions the notion of isomorphism.

January 30

Speaker: Giacomo Negro, Bocconi University
"No Barrique, no Berlusconi": Authenticity, identity, and inertia in Barolo/Barbaresco wine production

Abstract: Organizational identities become especially salient in markets when category boundaries blur and change. Contestation about the codes that specify categories raises concerns about what it means to be an authentic producer in a category. Inspection of the products themselves generally does not settle such matters, and attention shifts to the characteristics of the producers. How categories change and emerge and how organizational identities play out in these processes is the focus of considerable current theoretical and empirical interest. We explore these issues in the context of the emergence of an opposition between traditional and modern identities in an elite segment of the Italian wine industry: the making of Barolo and Barbaresco wines.

February 1

Speaker: Pascual Berrone, Universidad Carlos III de Madrid
"Do firms compensate their CEOs for environmental performance? An empirical analysis of U.S. polluting industries"

Abstract: We rely on institutional theory, agency rationale, and environmental management literature to hypothesize that, in polluting industries, CEO pay should be linked to environmental performance because it enhances legitimacy, and that pollution prevention (PP) strategies have a greater impact on executive compensation than end-of-pipe (EOP) pollution control. Further, we argue that the presence of environmental governance mechanisms strengthens the linkage between CEO pay and environmental strategies, and that long-term pay has a salutary effect on PP success. Using longitudinal data on 469 U.S. firms from polluting industries we found general support for our hypotheses. Contrary to our expectations, firms with an explicit environmental pay policy and an environmental executive



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committee of the board in place tend to reward EOP pollution control strategies, which are less expensive and easier to implement than PP, suggesting that these governance mechanisms play a stronger symbolic role.

February 2

Speaker: Olivier Chatain, INSEAD

"Extracting value from client relationships: Competition, expertise and cross-selling in the UK corporate legal market"

Abstract: How do suppliers capture the value they create with their clients? In this paper, I empirically examine the role of two drivers of suppliers' value capture for supplier profitability and buyer-supplier relationship stability. The first driver is the distinctiveness of suppliers' expertise compared to what their clients can get from competitors. The second driver is the realization of client-based scope economies through cross-selling. I analyze a unique longitudinal data set from the UK corporate legal market that comprises the client relationships of the largest UK law firms with FTSE 250 corporations, experts' assessment of law firms' capabilities, and law firms' profitability. I find that superior expertise relative to direct competitors and cross-selling, both by a focal firm and by its competitors, are important drivers of supplier profitability and client relationship stability. Moreover, cross-selling appears to be an important source of differentiation that also has a direct impact on competitors' ability to capture value. Overall, these findings contribute to our understanding of how competition and firm heterogeneity interplay to affect firm performance.

February 16

Speaker: Mercedes Delgado, National Bureau of Economic Research (NBER)

"When do clusters matter for regional economic performance?"

Abstract: Building on the large yet unsettled literature on the impact of agglomeration economies, this paper evaluates the role of regional clusters in regional economic performance. Except in narrow circumstances, the traditional distinction between industry specialization and regional diversity is misplaced, failing to capture the linkages among related industries or the importance of spillovers from proximate regions. Building on Porter's (1990, 2001) concept of clusters, we offer a systematic evaluation of the relationship between the patterns of cluster development and economic performance in terms of employment and patent growth. The cluster framework suggests three key spillovers influencing economic performance: within cluster, across related clusters, and across common clusters in neighboring regions. Using newly available data from the US Cluster Mapping Project, the empirical analysis exploits a rich panel dataset at the cluster-region level between 1990 and 2003. To address the potential endogeneity between regional cluster composition and subsequent economic performance, we include detailed controls for the attributes of clusters, regions and neighboring regions. We document the following principal findings. First, the growth of a

cluster depends on the specialization of the region in the cluster, and the strength of related clusters. Second, a region's strong clusters influence regional economic performance. Overall, these findings suggest that regional clusters play a central role in regional economic performance, and resolve several of the anomalous findings of prior studies that do not account for the interdependencies among industries in evaluating the impact of agglomeration economies.

February 22

Speaker: Michael H. Lubatkin, University of Connecticut and EM Lyon

"Transformational leadership's role in promoting corporate entrepreneurship: Examining the CEO-TMT interface"

Abstract: Research about transformational CEOs' impact on firm-level outcomes, particularly corporate entrepreneurship, has been equivocal, partly because the mechanisms underlying this impact have remained largely unexplored. Given that individuals in the firm most closely influenced by CEO are members of the top management team (TMT), we focus on the CEO-TMT interface as a salient intervening mechanism. We examine the influence of CEO transformational leadership on TMTs' level of behavioral integration, risk propensity, decentralization of responsibilities, and long-term compensation. We then posit that these TMT characteristics impact corporate entrepreneurship. Results from 152 firms provided support for all but one of our hypotheses.

"Ambidexterity and performance in small- to medium-sized firms: The pivotal role of TMT behavioral integration"

Abstract: While a firm's ability to jointly pursue both an exploitative and exploratory orientation has been posited as having positive performance effects, little is currently known about the antecedents and consequences of such ambidexterity in small- to medium-sized firms (SMEs). To that end, this study focuses on the pivotal role of top management team (TMT) behavioral integration in facilitating the processing of disparate demands essential to attaining ambidexterity in SMEs.

Then, to address the bottom-line importance of an ambidextrous orientation, the study hypothesizes its association with relative firm performance. Multisource survey data, including CEOs and TMT members from 139 SMEs, provide support for both hypotheses.

Information Systems

February 27

Speaker: Leslie J. Albert, University of Oklahoma

"Managing change in an information systems development organization: Understanding developer transitions from a structured to an object-oriented development environment"

Abstract: Object-oriented systems development has attracted great interest in the information systems field due to a belief that

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using object-oriented development makes it easier to develop and maintain software plus achieve software reuse. However, the transition from structured to object-oriented development may be especially challenging for information system developers. In fact, some argue that structured development knowledge may interfere with the ability to learn object-oriented development approaches due to a form of proactive interference.

To understand how knowledge of structured development concepts influences the ability to gain object-oriented development knowledge, we assessed a team of information system developers' understanding of structured and object-oriented concepts at the beginning of their first object-oriented development project and repeated our assessment one year later. Developers increased their understanding of some object-oriented concepts, but these changes were associated with increases in understanding of one of the structured development concepts. Further, at the beginning and end of the project, developers' mental models were highly consistent with one another and that of an object-oriented development expert with regard to most object-oriented development concepts. It appears that the formal training the developers received allowed them to attain a good understanding of most object-oriented concepts. These findings challenge the idea that structured developers must 'unlearn' structured development to adopt object-oriented development approaches. Future research may wish to examine the different types of software development knowledge to ascertain which are amenable to positive transfer and which are more likely to suffer from proactive interference.

Managerial Decision Sciences

January 22

Speaker: Daniel Schunk, University of Mannheim

"Sequential decision behavior with reference point preferences: Theory and experimental evidence"

Abstract: People are heterogeneous with respect to their behavior in sequential decision situations. This paper develops models for behavior in a simple sequential decision situation under the assumption of expected utility maximization and under the assumption of sequential updating of utility reference points during the decision task. I find experimental evidence that supports the new reference point model: Individual loss aversion is systematically related to the observed behavior in a way that is consistent with the predictions of the reference point model; that is, loss aversion helps to predict heterogeneity in behavior. Risk attitude is not related to observed behavior. The finding that many people set reference points in sequential decision tasks is of interest in, e.g., consumer economics, labor economics, finance, and decision theory.

February 19

Speakers: Margit Osterloh and Bruno S. Frey, University of Zurich
"Voluntary co-determination produces sustainable competitive advantage"

Abstract: The importance of firm-specific knowledge for a company's sustainable competitive advantage is well established in the knowledge-based theory of the firm. However, the impact of corporate governance design on firm-specific knowledge investments is under explored. We assess existing co-determination systems in Europe and their impact on firm performance; then we discuss voluntary co-determination as a new corporate governance design that fosters firm-specific knowledge investments, intrinsic work motivation, efficient monitoring, and board diversity while lowering transaction costs. Our analysis indicates that shareholders can increase their company's value by adopting customized co-determination rules.

"Awards as compensation"

Abstract: Awards are non-material, extrinsic compensation taking the form of orders, medals, decorations and prizes. They have been widely used in monarchies and republics, private organizations, not-for-profit and profit-oriented firms. Nevertheless, they have so far not received much attention. This paper develops empirically testable hypotheses, analyzing the determinants of the supply of awards. The hypotheses refer to the possibility of using awards, the effectiveness of awards, and the capacity to maintain the scarcity value of awards. As the number of awards bestowed cannot (at least so far) be measured adequately, empirical evidence is adduced by way of illustrative examples.

Production, Technology and Operations Management

January 23

Speaker: Onur Boyabatli, INSEAD

"Capacity investment in imperfect capital markets: The interaction of operational and financial decisions"

Abstract: This paper analyzes the effect of capital market imperfections on a firm's operational and financial decisions in a capacity investment setting. We model a monopolist who produces and sells two products in a single selling season. Product demands are price dependent, random and correlated. The firm chooses between flexible and dedicated technologies, and determines the capacity level and the production quantities with the chosen technology. The firm's limited budget, which depends partly on a tradable asset, can be altered with financial risk management and can be increased by borrowing from a creditor. The borrowing terms are determined in a Stackelberg equilibrium by the creditor who is the leader. The creditor incurs a fixed cost of bankruptcy if the firm defaults on the loan, and imposes an underwriting fee. The capital market imperfections, bankruptcy costs and underwriter fees impose financing frictions on the firm. We derive the optimal technology, capacity, production, external borrowing and financial risk management decisions of the firm; and the creditor's optimal contracting decision in equilibrium. Our analysis contributes to the capacity investment literature by analyzing the effect of capital market imperfections on capacity



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investment and characterizing previously undocumented trade-offs that arise in imperfect capital markets, demonstrating that these trade-offs may change traditional insights concerning capacity investment derived under the perfect market assumption and underlining the importance of the integration of operational and financial decisions.

February 5

Speaker: Fredrik Odegaard, Sauder School of Business, University of British Columbia

"Optimal release of inventory using online auctions: The two item case"

Abstract: In this paper we analyze policies for optimally disposing of inventory using online auctions. We assume a seller has a fixed number of items to sell using a sequence of possibly overlapping single-item auctions. The decision the seller must make is when to start each auction. The decision involves a trade-off between a holding cost for each period an item remains unsold, and a higher expected final price the fewer the number of simultaneous auctions underway.

Consequently, the seller must trade off the expected marginal gain for the ongoing auctions against the expected marginal cost of the unreleased items by further deferring their release.

We formulate the problem as a discrete time Markov Decision Problem and consider two cases. In the first case we assume the auctions are guaranteed to be successful, while in the second case we assume there is a positive probability that an auction receives no bids. The reason for considering these two cases is that they require different analysis. We derive conditions to ensure that the optimal release policy is a control limit policy in the current price of the ongoing auctions, and provide several illustrations of results. The paper focuses on the two-item case which has sufficient complexity to raise challenging questions.

February 12

Speaker: Pascale Crama, London Business School

"Milestone payments or royalties? Contract design for R&D licensing"

Abstract: We study how innovators can optimally design licensing contracts, when there is incomplete information on the licensee's valuation of the innovation, and limited control over the licensee's development efforts. A licensing contract typically contains an upfront payment, milestone payments at successful completion of a project phase, and royalties on sales. We use principal-agent models to formulate the licensor's contracting problem and we find that under adverse selection, the optimal contract structure changes with the licensee's valuation of the innovation. As the licensee's valuation increases, the licensor's optimal level of involvement in the development –directly or through royalties– should decrease. Only a risk-averse licensor should include both upfront and milestone payments. Moral hazard alone is not detrimental to the licensor's value, but may

create an additional value loss when combined with adverse selection. Our results inform managerial practice about the advantages and disadvantages of the different terms included in licensing contracts and recommend the optimal composition of the contract.

February 26

Speaker: Raul O. Chao, Georgia Institute of Technology

"Budget creation and control for effective NPD portfolio management"

Abstract: Innovation and new product development (NPD) are critical to firm success and are often cited as key competitive dimensions. This paper addresses the link between organization design choices, resource allocation, and the NPD portfolio. We develop an analytic model to explore how a manager allocates resources between NPD programs under various organization design mechanisms. Our focus is on design mechanisms that determine how the NPD budget is created and controlled. Budget creation may be either exogenous or endogenous depending on the extent to which the manager can use revenue derived from existing product sales to fund new product development efforts. Budget control is characterized via constraint accountability depending on whether the manager is forced to account for the NPD budget throughout the development cycle or only at the end of the development cycle. Our results indicate that the optimal allocation of resources between existing product improvement (relatively incremental projects) and new product development (more radical projects) can be altered by simple organization design mechanisms based on budget creation and control. We find that autonomy in terms of how the NPD budget is determined drives higher resource expenditure towards existing product improvement. In contrast, the primary force that drives resource expenditure towards developing the new product is the type of budget control used independent of the manner in which NPD budget is created. Effort aimed at developing the new product is strictly higher when the manager is forced to account for budget overruns throughout the development cycle as opposed to only at the end of the development cycle. Implications regarding the NPD portfolio, new product launch time, and profitability of the business unit are discussed.

Research Seminars

Rama Velamuri

On February 16, at China Europe International Business School, Shanghai, presented the paper "Ethical behaviors of entrepreneurs and stakeholder resource commitments to ventures".

Abstract: We examine the role of the ethical values of founders in influencing the emergence of stakeholder networks in the nascent

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and early stages of their firms, and specifically seek to explain: 1) the diversity of stakeholder groups making resource commitments, and 2) the diversity of their motivations. We propose that this relationship is mediated by the salience for stakeholders of the firm's ethical values, and that this salience in turn is influenced by entrepreneur attributes, industry characteristics, and the broader socio-political and economic environment. We propose a theoretical model based on our findings.

Miscellaneous

Antonio Argandoña

On January 18, attended in Logroño the Segundas Jornadas de Economía Española sobre "Localización y competitividad en un escenario económico global", where he gave the lecture "Implicaciones de la relocalización empresarial en una economía regional".

On January 25, gave the lecture "Cómo poner en práctica un programa de responsabilidad social de la empresa" to the Asociación Española de Directivos (AED) in Valencia.

On February 16, attended in Madrid the I Foro de la Empresa Socialmente Responsable, where he gave the lecture "La gestión de la responsabilidad corporativa en la empresa".

On February 28, attended in Barcelona the VIII Jornada Internacional de Salud y Responsabilidad Social, where he took part in the presentation of the "International Platform for the Integration of Health Management in Corporate Social Responsibility".

Africa Ariño

Has been appointed Chair of the Strategic Management Society Best Paper Award Committee for a term of three years.

Has been appointed a member of the Editorial Board of the *Strategic Management Journal*.

Miguel Cantillo

On February 16, attended in Madrid the Research Workshop on Corporate Governance, organized by Instituto de Empresa, IESE, Universidad Carlos III and CEMFI, where he acted as discussant of the paper "Institutions, markets and growth: A theory of comparative corporate governance", by John Kose (New York University).

Bruno Cassiman

Has been appointed co-editor of *Spanish Economic Review* for a term of four years.

Toni Dávila

On January 5-6, attended in Fort Worth, Texas, the Management Accounting Section Annual Meetings, organized by the American Accounting Association, where he was the plenary speaker and gave a talk on "The relevance of management accounting to innovation and entrepreneurship".

Javier Gómez

In February was appointed associate editor of *Revista de Economía Financiera* for a period of three years.

Johanna Mair

On January 22-23, attended in Zurich the "Sixth Social Entrepreneurs Summit", where she took part in the group session "The business case for supporting social entrepreneurs".

Javier Quintanilla

In January was appointed a member of the Editorial Advisory Board of the *Human Resource Management Journal*, Blackwell Publishing.

Xavier Vives

On January 19-20, attended in Toulouse the IDEI Conference on the subject "The economics of the software and Internet industries", where he acted as discussant of the paper "Price and capacity competition" by Asuman Ozdaglar.

Book reviews

Javier Estrada

Reviewed the book "The undercover economist", by Tim Harford, Oxford University Press, November 2005, *Journal of Investment Management*, Vol. 4, No 2, 2006, pages 82-85.

Guido Stein

Reviewed the book "The leadership wheel", by C. Clinton Sidle, Palgrave Macmillan, September 2005, *Enfoques*, Vol. 12, February 2007, page 8.



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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

Analysis of Business Problems

Rattunde & Co GmbH
(ASN-38-E - 0.306.015)

A young machining company in East Germany needs to decide whether to specialize in the tube machining business or continue to offer all kinds of different types of machines. Set in the 1990s in East Germany with all the corresponding issues.
(Also available in Spanish.)

Guinand C.; Heukamp F.H.; 12 pages.

Entrepreneurship

Nordic Technologies AB
(E-100-E - 0.606.051)

The case describes the terms of an offer to provide second-round financing for an early-stage technology company in Sweden.

Johnson R.; 14 pages.

CVO Group: Plotting Expansion Paths
(E-102-E - 0.606.055)

Norrie Sinclair, CEO of CVO Group –a recruiting company based in Budapest, Hungary, with operations throughout Eastern Europe– is considering two types of expansion: geographic enlargement to London, UK, and expansion into personnel leasing through acquisition. In his search for an acquisition target, Norrie has come across Center Group, a company participating in both personnel leasing and payroll outsourcing in Poland. This case allows students to consider expansion plans in a high-growth professional services company that grew out of a developing region.
(Also available in Spanish.)

Mitchell J.; Prats M.J.; 23 pages.

General Management

Banco Sabadell: Adquisición de Banco Atlántico, S.A.
(DG-1490 - 0.306.018)

El caso expone el proceso de selección y decisión estratégica que Banco Sabadell llevó a cabo cuando adquirió Banco Atlántico. Se da un panorama general del sector bancario español en este momento del tiempo, y se exponen los motivos estratégicos fundamentales que empujaron a la entidad financiera a dar un salto de banco regional a nacional, a cambiar su estructura de capital social “y su cúpula directiva” y a reformular su misión y visión como entidad bancaria. Asimismo, el caso ejemplifica cómo una estrategia de crecimiento vía adquisiciones –aunada al crecimiento orgánico del propio negocio– puede abrir nuevos mercados, potenciar marcas y generar valor agregado para una institución cuando ésta se enfoca en nichos de mercado específicos, analiza detenidamente el posicionamiento geográfico que posee, el tipo de productos y servicios que la hacen única (diferenciación), y posee objetivos definidos a corto y mediano plazo que la ayudan a toma las decisiones indicadas en el momento justo.

Trevinyo-Rodríguez R.N.; Tàpies J.; 25 pages.

Banco Sabadell: Adquisición de Banco Atlántico, S.A. - Nota del instructor
(DGT-50 - 5.306.019)

Case DG-1490.

Use is restricted to Academic Institutions.

Trevinyo-Rodríguez R.N.; Tàpies J.; 24 pages.

The Bertelsmann Reinhard Mohn Fellowship: CSR as Cultural Exchange
(DG-1491-E - 0.306.020)

The Reinhard Mohn Fellowship is an initiative of Bertelsmann AG. It reflects Bertelsmann’s ongoing commitment to fostering social, cultural and individual development by rewarding and sponsoring people with leadership qualities who have demonstrated enterprise, creativity and entrepreneurial spirit. It provides for up to five social entrepreneurs from all over the world to undertake a one-year program that offers them the opportunity to experience corporate culture, work on projects in various divisions and build networks within Bertelsmann’s global group of media companies. The idea behind the initiative is not only to provide a unique opportunity for socially innovative young entrepreneurs but also to allow the company to benefit from their contrasting points of view and differing sets of experiences. The case aims at stimulating students to think about innovative ways in which companies can contribute to society. It also allows discussion of the process of gaining and sustaining momentum for social initiatives in large companies. Questions which might be posed include: who benefits

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from the initiative? Is the program a success? Can its impact be measured? And, above all, can it be replicated or provide a role model for other companies? In particular, the case allows for an interesting discussion on corporate responsibility initiatives in privately held companies.

Ganly K.; Mair J.; 26 pages.

The Bertelsmann Reinhard Mohn Fellowship: CSR as Cultural Exchange - Teaching Note

(DGT-55-E - 5.306.078)

Case DG-1491-E.

Use is restricted to Academic Institutions.

Ganly K.; Mair J.; 15 pages.

Diesel SpA (A)

(DG-1496-E - 0.306.052)

In 2000, Renzo Rosso, the founder and CEO of the Italian apparel company Diesel, is wondering whether the company's strategy can help it grow in the new millennium. By 2000, the Diesel brand has become one of the hottest in the denim fashion segment, but Rosso now needs to consider whether their current market positioning is sustainable in the long term and whether they should invest more in their retail operations. He also needs to consider how the current organizational structure and processes fit with the new strategic direction and whether they can sustain further growth. The (B) case, set in 2005, discusses the evolution of the company and provides an opportunity to discuss the challenges associated with the long-term sustainability of strategic positioning in the fashion industry.

Baldo A.; De Agostini L.; Ferraro F.; 22 pages.

Diesel SpA (B)

(DG-1497-E - 0.306.053)

The Diesel SpA (B) case, set in 2005, discusses the evolution of the company between 2000 and 2005, and provides an opportunity to discuss the challenges associated with the long-term sustainability of strategic positioning in the fashion industry.

Baldo A.; De Agostini L.; Ferraro F.; 10 pages.

Succession at Merck KGaA

(DG-1504-E - 0.306.067)

In 2006, Merck KGaA, the world's oldest pharmaceuticals and chemicals firm, founded in 1668, was a €6bn business, still family-owned. Recent changes at the helm of the company, combined with Merck's takeover bid for Schering, its German rival, in March

2006, were interpreted by many observers as steps to address the concern voiced by analysts that Merck should grow significantly to maintain its importance in the industry. Although 27% of the company's capital was in the hands of non-family investors, the family maintained its influence well beyond its formal 73% capital share. This was achieved through a complex governance construct that enshrined wide-ranging decision rights in the family. These size and governance issues present highly interesting starting points for discussing the adequacy of (family) controls, management decisions and succession plans. (Also available in Spanish.)

Neumann F.; Tàpies J.; 15 pages.

Succession at Merck KGaA - Teaching Note

(DGT-52-E - 5.306.068)

Case DG-1504-E.

(Also available in Spanish.)

Use is restricted to Academic Institutions.

Neumann F.; Tàpies J.; 6 pages.

Ducati: In Pursuit of Magic (A)

(DG-1507-E - 0.306.074)

As of early 2006, Federico Minoli, CEO of Italian motorcycle maker Ducati, is considering different strategic options. Having led the company through one major turnaround from 1996 to 2001, Minoli has seen Ducati's revenues stagnate from 2002 to 2005. Minoli is forming a plan for the "relaunch" of Ducati and will be presenting it to investors for support of an €80 million capital increase. In his plan, he needs to address the immediate financial concerns as well as longer-term strategic considerations.

Mitchell J.; Cassiman B.; 32 pages.

Ducati: In Pursuit of Magic (B)

(DG-1508-E - 0.306.075)

Part B is a brief epilogue to the plan that Minoli presented to investors.

Mitchell J.; Cassiman B.; 2 pages.

Ducati: In Pursuit of Magic (A) and (B) - Teaching Note

(DGT-57-E - 5.307.007)

Cases DG-1507-E and DG-1508-E.

Use is restricted to Academic Institutions.

Mitchell J.; Cassiman B.; 15 pages.



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Managerial Decision Sciences

Simulation Exercises

(ADE-29-E - 0.106.026)

This is a serie of exercises designed to practice simulation techniques.

Ariño M.A.; 3 pages.

Neuroeconomics

(ADN-268-E - 0.106.016)

This note presents the new discipline of neuroeconomics. It gives an overview of the human brain and reports on scientific findings that relate neuroscience and economics.

Panina O.; Heukamp F.H.; 25 pages.

The Power of Microsoft Excel PivotTables

(ADN-269-E - 0.106.035)

This technical note is a brief introduction to PivotTables, one of Microsoft Excel's most powerful database tools. This function significantly facilitates creation of snapshot reports of large amounts of data with relative ease.

Lobanova A.; Baucells M.; 7 pages.

The Value of Information

(ADN-272-E - 0.106.048)

Short explanation of the value of perfect and imperfect information in risky decision making.

Lewis A.; Heukamp F.H.; 11 pages.

Managing People in Organizations

Putzmeister Ibérica

(DPO-95 - 0.406.055)

La implantación de políticas de flexibilidad y conciliación puede suponer una importante y profunda transformación, no sólo de la organización y los procedimientos de una empresa, sino también de las personas que la integran. Putzmeister Ibérica puso en marcha un innovador programa de flexibilidad, respondiendo a un nuevo estilo de liderazgo y, para conseguirlo, los máximos responsables del área de recursos humanos tuvieron que llevar a

cabo un ambicioso e innovador plan de comunicación, capaz de cambiar la mentalidad de una parte de la plantilla.

García-Lombardía P.; Chinchilla M.N.; Gay F.; 11 pages.

Mobbing

(DPON-18 - 0.405.013)

Los datos más citados sobre el acoso laboral indican que esta situación afecta a un porcentaje de la población activa que se puede considerar muy relevante (entre 7 y 9%). En esta nota se resumen los aspectos psicológicos, clínicos, éticos y legales acerca del *mobbing*.

Ribera A.; 5 pages.

Foundations of Coaching

(DPON-32-E - 0.406.001)

Coaching has emerged as a learning and development process aimed at closing the gap between what the company is now and what it wants to be in the future. This technical note describes the different types of coaching, the participants, and the actual coaching process.

(Also available in Spanish.)

Poelmans S.; Larburu A.; 36 pages.

The Relevance of Time Experience for Performance

(DPON-38-E - 0.406.015)

Understanding how time experience can affect behavioral patterns in the workplace.

Poelmans S.; Van Overbeek S.; 15 pages.

Eficacia y liderazgo

(DPON-50 - 0.406.036)

Se trata de exponer y discutir cuáles son las relaciones entre liderazgo y eficacia, partiendo de la tesis de que dirección y resultados se complican. Se abordan en primer lugar los obstáculos, principalmente de índole de gestión personal, que ha de superar un directivo para desempeñarse con eficacia, para a continuación centrarse en las palancas que potencian la eficacia personal y ejecutiva, y acabar con unas reflexiones generales acerca del líder eficaz. Como anexo se aportan pensamientos de Peter Drucker sobre el directivo eficaz.

Stein G.; 6 pages.

Newsletter

January - February 2007 - No 135



Marketing

Campus Cerdanya

(M-1194 - 0.506.013)

Sandro Lucarini acaba de lograr la concesión administrativa para edificar una residencia deportiva y cultural en la Cerdanya. Después de haber abandonado una brillante carrera de consultoría para dedicarse el último año y medio a la confección del plan de negocio y a las negociaciones con el ayuntamiento, ha llegado el momento de lanzarse a la piscina. Las inversiones y su financiación, la elección de socios para acometer la nueva empresa, los acuerdos de control y la revisión del modelo de negocio, son ahora fuente de preocupación...

Lucarini S.; Segarra J.A.; 30 pages.

Production, Technology and Operations Management

Airline Simulator - Exercise

(PE-66-E - 0.606.035)

This exercise introduces readers to the techniques of revenue management by allowing them to use these techniques to simulate the process of optimizing an airline's income from a specific flight on which it offers three types of ticket: business class, tourist class and discount. The reader can modify the prices and the number of seats assigned to each category, and change them as the departure date draws closer.

Ribera J.; 2 pages.

Occasional Papers

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

OP-07/11 - January 2006

Xavier Vives

INFORMATION SHARING: ECONOMICS AND ANTITRUST

Abstract: Information sharing among firms has received substantial attention from the economics literature. Firms may exchange information about current and past behavior, such as customer transaction data as well as cost and demand conditions. This type of information exchange typically involves verifiable information. Firms may also exchange information about intended future conduct, such as future prices or production, new products or capacity developments. This typically involves soft information.

Since firms may have incentives to share information for efficiency or collusive reasons, the welfare impact of information sharing practices is in general ambiguous.

In this paper I survey the incentives to information sharing and the welfare consequences in static (non-collusive) models in Section 2; the analysis of the collusive potential of information exchange in Section 3; and the impact of information technology on transparency and the unilateral and coordinated exercise of market power. I conclude with some competition policy implications.

OP-07/12 - February 2006

Xavier Vives

EL BUEN GOBIERNO DE LAS EMPRESAS PUBLICAS

Abstract: Pese al reciente proceso de privatización en la mayoría de países del mundo, las empresas públicas siguen teniendo un peso importante en la economía. España no es ninguna excepción, concentrando este tipo de empresas en determinados sectores de provisión de servicios públicos o estratégicos. Dentro del creciente interés por el gobierno corporativo de las empresas, en el caso de las de propiedad pública las prácticas de buen gobierno cobran un interés mayor al ser empresas bajo responsabilidad del Estado. Este debe ejercer sus funciones como propietario sin interponer interferencias políticas que vayan en contra de los principios de competencia, así como compatibilizar múltiples objetivos o lidiar con problemas de agencia dobles. Debido a las características diferenciadas de las empresas privadas, en los últimos años se ha visto la necesidad de elaborar unas directrices de buen gobierno a semejanza de las de gobierno corporativo para las empresas privadas, que se adaptasen a los problemas concretos de las empresas públicas. En este artículo se repasan estos principales problemas a la vez que se proponen posibles estrategias de mejora basadas en las directrices reconocidas internacionalmente elaboradas por la OCDE. Además, también se incluyen algunas consideraciones sobre la privatización de las empresas públicas españolas en relación a la competencia y a la regulación.

OP-07/13 - February 2006

Antonio Argandoña

IMPLICACIONES DE LA RELOCALIZACION EMPRESARIAL EN UNA ECONOMIA REGIONAL

Abstract: Una de las consecuencias de la globalización es la multiplicación de los casos de deslocalización, relocalización, desinversión, *offshoring*, *outsourcing*, etc. Este trabajo resume brevemente el alcance e importancia de esos fenómenos, sus causas, cómo se plantean en las empresas, cuáles son sus consecuencias macroeconómicas y qué repercusiones deben tener en las políticas públicas.



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