**Antonio Argandoña**


**Abstract:** The traditional theories of the firm leave no room for love in business organizations, perhaps because it is thought that love is only an emotion or feeling, not a virtue, or because economic efficiency and profit making are considered to be incompatible with the practice of charity or love. In this article, we show, based on an approach to human action in organizations, that love can and must be lived in firms for firms to operate efficiently, be attractive to those who take part in them, and act consistently in the long run.

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**Nuno Camacho – Bas Donkers – Stefan Stremersch**


**Abstract:** Experimental and survey-based research suggests that consumers often rely on their intuition and cognitive shortcuts to make decisions. Intuition and cognitive shortcuts can lead to suboptimal decisions and, especially in high-stakes decisions, to legitimate welfare concerns. In this paper, we propose an extension of a Bayesian learning model that allows us to quantify the impact of salience – the fact that some pieces of information are easier to retrieve from memory than others – on physician learning. We show, using data on actual prescriptions for real patients, that physicians’ belief formation is strongly influenced by salience effects. Feedback from switching patients – the ones the physician decided to switch to a clinically equivalent treatment – receives considerably more weight than feedback from other patients. In the category we study, salience effects slowed down physicians’ speed of learning and the adoption of a new treatment, which raises welfare concerns. For managers, our findings suggest that firms that are able to eliminate, or at least reduce, salience effects to a greater extent than their competitors can speed up the adoption of new treatments. We explore the implications of these results and suggest alternative applications of our model that are relevant for policy makers and managers.

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**Javier Díaz-Giménez – Andy Glover – José-Víctor Ríos-Rull**


**Abstract:** This article is largely a description of inequality of earnings, income, and wealth in the United States in 2007 as measured by the Survey of Consumer Finances (SCF). We look at inequality in relation to various characteristics such as age, education, employment status, marital status, and whether households are late payers or include bankruptcy filers. We also look at economic mobility. We compare these variables in 2007 with their values in our earlier study in 1998.
Abstract: Decision making can be regarded as the outcome of cognitive processes leading to the selection of a course of action among several alternatives. Borrowing a central measurement from information theory, Shannon entropy, we quantified the uncertainties produced by decisions of participants within an economic decision task under different configurations of reward probability and time. These descriptors were used to obtain blood oxygen level-dependent (BOLD) signal correlates of uncertainty and two clusters codifying the Shannon entropy of task configurations were identified: a large cluster including parts of the right middle cingulate cortex (MCC) and left and right pre-supplementary motor areas (pre-SMA) and a small cluster at the left anterior thalamus. Subsequent functional connectivity analyses using the psycho-physiological interactions model identified areas involved in the functional integration of uncertainty. Results indicate that clusters mostly located at frontal and temporal cortices experienced an increased connectivity with the right MCC and left and right pre-SMA as the uncertainty was higher. Furthermore, pre-SMA was also functionally connected to a rich set of areas, most of them associative areas located at occipital and parietal lobes. This study provides a map of the human brain segregation and integration (i.e., neural substrate and functional connectivity respectively) of the uncertainty associated with an economic decision making paradigm.

Jean-Pierre Papart – Yih-teen Lee

Abstract: Built on the model of job demand and job control (Karasek, 1979), this paper examines possible negative effects of work design on workers. With data collected from more than 4000 employees working in 10 organizations, we demonstrate that the level of anxiety is highest when employees perceive high job demand yet do not possess a corresponding level of control or autonomy. Furthermore, our results also indicate that professional support received from colleagues can buffer such anxiety. Theoretical and managerial implications regarding job design and HR policies are discussed in the paper.

Domènec Melé – Antonio Argandoña – Carlos Sánchez-Runde

Special issue with a selection of papers presented at the 16th Symposium Business Ethics and Society, held at IESE-Barcelona in May 2010.

Elena Reutskaja – Rosemarie Nagel – Colin F. Camerer – Antonio Rangel

Abstract: We study decisions that involve choosing between different numbers of options under time pressure using eye-tracking to monitor the search process of the subjects. We find that subjects are quite adept at optimizing within the set of items that they see, that the initial search process is random in value, that subjects use a stopping rule to terminate the search process that combines features of optimal search and satisficing, and that subjects search more often in certain focal regions of the display, which leads to choice biases.

Pedro Saffi – Kari Sigurdsson

Abstract: This article presents a study of how stock price efficiency and return distributions are affected by short-sale constraints. The study is based on a global dataset, from 2005 to 2008, that includes more than 12,600 stocks from 26 countries. We present two main findings. First, lending supply has a significant impact on efficiency. Stocks with higher short-sale constraints, measured as low lending supply, have lower price efficiency. Second, relaxing short-sales constraints is not associated with an increase in either price instability or the occurrence of extreme negative returns.

Mariarosaria Taddeo – Antonino Vaccaro

Abstract: Much of the ethical debate on peer-to-peer (P2P) focuses on the use of this technology for unauthorized and illegal sharing of copyrighted materials. This fixation has led some to believe that P2P is an intrinsically unethical
technology. However, P2P has a much wider significance than the unauthorized circulation of copyrighted material. Scholars therefore need to evaluate the global ethical effects of P2P architecture on society, as opposed to focusing on the specific implementations of this architecture. Several criteria have been proposed for the assessment of these implications, ranging from the effects of P2P on the technological progress of a society to its influence on the development of virtuous interactions. This article contributes to this debate by presenting a new approach, which distinguishes between local effects (content related) and systemic effects (communication modality related) of the use of P2P and focuses on the latter. Employing Floridi's information ethics, it considers whether or not P2P is an ethical technology, in a global sense.

Judith L. Walls – Phillip H. Phan – Pascual Berrone

Abstract: Inconsistent results in prior work that link environmental strategy to competitive advantage may be due to the empirical difficulties of marrying the theoretical connection between a firm’s resource base and its environmental strategy. The authors contribute to the field by developing a measure that is congruent with the natural resource -based view, a dominant paradigm in this line of work. In this article they analyse company reports and secondary data to develop a measure of environmental strategy grounded in the natural resource-based view. They identify six environmental capabilities that form components of a reliable, multidimensional construct of proactive environmental strategy. They also identify a measure of reactive compliance strategy. They verify the reliability of their new measure through exploratory and confirmatory factor analyses, establish convergent and discriminant validity via a multitrait, multimethod matrix, and demonstrate the superior predictive validity of their measure compared to two others commonly used in the literature. In the conclusion, they discuss implications for research and practice.

Books


Abstract: A pesar del material de estudio que ya existe, sigue habiendo un notable desconocimiento sobre la empresa familiar, sobre todo entre aquellas personas que no han tenido la oportunidad de conocer de primera mano las peculiaridades de este tipo de compañías. Pero, también, hay desconocimiento, aunque en menor medida, entre los que desempeñan determinados roles en el marco de una empresa familiar.
Consciente de esta circunstancia, “Familia Empresaria” se enmarca en la necesidad de avanzar en el conocimiento de la empresa familiar.
La colección de artículos analiza muchos y variados temas que, en su conjunto, ayudarán al lector a comprender mejor de qué hablamos cuando nos referimos a la empresa familiar y cuáles son sus principales retos, ventajas, inconvenientes, amenazas y, por supuesto, también oportunidades.

Contributions to books

Antonio Argandoña

Abstract: La economía española se enfrenta a un conjunto de reformas estructurales, de gran importancia para su capacidad de crecimiento futuro y para la consecución de una sociedad cohesionada e ilusionada con su futuro. Pero esas reformas no son fáciles de diseñar ni de poner en práctica. En este artículo se pasa revista a algunos caracteres de esas reformas, empezando por cómo debe plantearse el debate sobre las mismas, siguiendo por la discusión del marco conceptual en que se deben establecer y discutiendo los argumentos de eficiencia, equidad y conveniencia que las inspiran, para acabar discutiendo algunos aspectos prácticos de su desarrollo.
Pankaj Ghemawat

Abstract: This chapter is focused on the incorporation of global perspectives within the core curriculum as well as supplemental training and experiential learning. It draws upon existing research, a new survey of academic thought leaders, and several examples that involve the case-study schools as well as other business schools in order to inform the discussion. In doing so, the aim is to spark reflection and dialogue among faculty members, program directors and business school administrators regarding the approaches most appropriate for various programs, given their size, objectives, student profile, delivery format, resources, and other characteristics.

IESE – Working Papers

No 910 – March 2011
Pablo Fernández
21 PROBLEMAS SENCILLOS DE FINANZAS RESUELTOS Y 525 RESPUESTAS ERRONEAS

Abstract: Este documento contiene 21 preguntas sencillas de exámenes de finanzas. También contiene sus respuestas y 525 respuestas erróneas que, por respeto a sus autores (todos ellos poseían títulos universitarios superiores de diversos países), se denominan soluciones “innovadoras”, “progresistas” o “innovadoras y revolucionarias”.

Los objetivos de este documento son:
• Refrescar al lector algunos conceptos.
• Observar la variedad de respuestas.
• Procurar no repetir errores cometidos en el pasado.
El documento también ayuda a calibrar la capacidad de asimilación de las cuestiones financieras y contables por parte de los alumnos y directivos.

No 911 – March 2011
Pablo Fernández – Javier del Campo
MARKET RISK PREMIUM USED IN 2010 BY PROFESSIONALS: A SURVEY WITH 1,500 ANSWERS

Abstract: The average Market Risk Premium (MRP) used in 2010 by professors in the United States (6.0%) was higher than the one used by their colleagues in Europe (5.3%). We also report statistics for 33 countries: the average MRP used in 2010 ranges from 3.6% (Denmark) to 10.9% (Mexico). 29% of the professors decreased the MRP in 2010, 16% increased it and 55% used the same MRP.

The dispersion of the MRP used was high: the average range of MRP used by professors for the same country was 7.4% and the average standard deviation was 2.4%.

Most previous surveys have been interested in the Expected MRP, but this survey asks about the Required MRP. The paper also contains the references that professors use to justify their MRP, and comments from 85 professors that illustrate the various interpretations of what is the required MRP.

No 912 – March 2011
Pablo Fernández – Javier del Campo
MARKET RISK PREMIUM USED IN 2010 BY ANALYSTS AND COMPANIES: A SURVEY WITH 2,400 ANSWERS

Abstract: The average MRP used by analysts in the United States and Canada (5.1%) was similar to the one used by their colleagues in Europe (5.0%), and United Kingdom (5.2%). But the average MRP used by companies in the United States and Canada (5.3%) was smaller than the one used by companies in Europe (5.7%), and United Kingdom (5.6%).

The dispersion of the MRP used was high, but lower than that of the MRP used by professors: the average range of MRP used by analysts (companies) for the same country was 5.7% (4.1%) and the average standard deviation was 1.7% (1.2%). These statistics were 7.4% and 2.4% for the professors.

Most previous surveys have been interested in the Expected MRP, but this survey asks about the Required MRP. The paper also contains the references that analysts and companies use to justify their MRP, and comments from 89 respondents that illustrate the various interpretations of what is the required MRP.

No 913 – March 2011
Pablo Fernández
201 PREGUNTAS SOBRE FINANZAS

Abstract: Este documento contiene 201 preguntas que me han formulado en los últimos años alumnos, antiguos alumnos y otras personas (jueces, árbitros, clientes...). Se han recopilado para ayudar al lector a recordar, aclarar, reforzar, matizar y, en su caso, discutir, conceptos útiles en finanzas. La mayoría de las preguntas tienen una respuesta clara, pero otras son matizables.

Las preguntas se agrupan en 12 apartados: contabilidad y finanzas, flujos, endeudamiento, tasas de descuento, valoración, transacciones, divisas, bolsa e inversión, intangibles, creación de valor, eficiencia, noticias de prensa.
WACC: DEFINITION, MISCONCEPTIONS AND ERRORS

Abstract: The WACC is just the rate at which the Free Cash Flows must be discounted to obtain the same result as in the valuation using Equity Cash Flows discounted at the required return to equity (Ke).

The WACC is neither a cost nor a required return: it is a weighted average of a cost and a required return. To refer to the WACC as the “cost of capital” can be misleading because it is not a cost.

The paper presents 7 errors caused by not remembering the definition of WACC and shows the relationship between the WACC and the value of the tax shields (VTS).

(Also available in Spanish.)

HIGHER ORDER EXPECTATIONS, ILLIQUIDITY, AND SHORT-TERM TRADING

Abstract: We propose a theory that jointly accounts for an asset illiquidity and for the asset price potential over-reliance on public information. We argue that, when trading frequencies differ across traders, asset prices reflect investors’ Higher Order Expectations (HOEs) about the two factors that influence the aggregate demand: fundamentals information and liquidity trades. We show that it is precisely when asset prices are driven by investors’ HOEs about fundamentals that they over-rely on public information, the market displays high illiquidity, and low volume of informational trading; conversely, when HOEs about fundamentals are subdued, prices under-rely on public information, the market hovers in a high liquidity state, and the volume of informational trading is high.

Over-reliance on public information results from investors’ under-reaction to their private signals which, in turn, dampens uncertainty reduction over liquidation prices, favoring an increase in price risk and illiquidity. Therefore, a highly illiquid market implies higher expected returns from contrarian strategies. Equivalently, illiquidity arises as a byproduct of the lack of participation of informed investors in their capacity as liquidity suppliers, a feature that appears to capture some aspects of the recent crisis.

CORPORATE VALUES GUIDING THE WORLD’S LARGEST FAMILY-OWNED BUSINESSES: A COMPARISON WITH NON-FAMILY FIRMS

Abstract: This paper analyzes formally stated corporate values, a key topic of concern in the field of family businesses. More specifically, the study aims to contribute to the literature by enabling a deeper understanding of the differences and similarities of the corporate values at the foundation of the world’s top 100 largest family-owned firms and non-family businesses. According to the study findings, the values of integrity, respect, and customers are the top three most-mentioned values in both family-owned businesses and non-family companies. Likewise, there are distinct values that are mentioned often by family-owned firms and seldom stated or not stated at all by non-family businesses. These values tend to be more people-oriented; emphasize collectivity more than individuality; and support a long-term perspective and a sense of stewardship and responsibility toward the future of the family and the community in which the business operates.
Other publications

Paddy Miller – Thomas Wedell-Wedellsborg

Abstract: Creativity isn’t about crayons. It is about finding a way to adapt creativity to your workplace – and that often entails leaving the more flamboyant methods behind in favour of a subtler, more pragmatic approach.

Philip G. Moscoso – Alejandro Lago – Marlene Amorim

Abstract: The adequate design and management of customer contributions to a company’s services processes has become a key source of competitive advantage, as the contributions can be leveraged both operationally and strategically.

Guido Stein – Salvador Plaza
“La supervisión y rotación del CEO: La influencia del consejero independiente”, Nuevas Tendencias, No 82, April 2011, pages 55-70.

Abstract: Desde un punto de vista teórico, la figura del consejero independiente ha suscitado altas expectativas en cuanto a la mejora del gobierno en las sociedades. Muchas de las recomendaciones establecidas en los códigos de buen gobierno se sustentan en la teoría de la agencia y, por tanto, se concretan en señalar situaciones generadoras de conflictos de interés. Este enfoque resulta insuficiente, ya que se puede caer en el peligro de realizar una “interpretación (de la independencia del consejero) más atenta a la letra que al espíritu de la denominación”. Las investigaciones realizadas señalan que las empresas con malos resultados y una presencia considerable de consejeros independientes son más propensas a sustituir al primer ejecutivo.

Guido Stein – Javier Capapé

Abstract: El fracaso del Chief Executive Officer (CEO) se ha estudiado abundantemente en la bibliografía. Este artículo ordena y clasifica los factores que conducen al fracaso de los CEO entre aquellos en los que puede intervenir el CEO (endógenos) y aquellos que le vienen dados (exógenos). El enfoque y la metodología de la agencia resultan insuficientes para comprender este complejo proceso en las organizaciones debido a la simplificación excesiva sobre la naturaleza humana y la fuerte dependencia de la modelización matemática. En esta segunda parte se centrarán en el análisis de los factores exógenos.

Conferences and Seminars

Inés Alegre (PhD Student)
On April 4-8, attended the Eden Doctoral Seminar on Case-based Research in Management Accounting, where she presented the paper “Social enterprises for work integration: Managing the tension between the social and the economic objective”.

Abstract: In this study I examine how managers of social enterprises for work integration of people with disabilities manage the tension between the economic and the social objectives of the company. Through an inductive, multi-case qualitative study of fifteen companies and applying rhetoric and narratives theory, I confirm that the tension exists and that three possible reactions occur. Either the firm gives priority to the financial objective, reducing its social scope; or it gives priority to the social objective, entering into a complicated financial situation; or finally, it finds an innovative solution that allows the company to pursue both the economic and the social objective at the same time. The current crisis situation has been the ideal setting to study the tension between the two objectives, and management control systems have been identified as a crucial management tool that predicts the strategic reaction of the companies.

Lucía Ceja
On March 23-26, attended the IFERA Americas Family Business Forum 2011 in Bogota, where she presented the paper “Corporate values guiding the world’s largest family-owned businesses: A comparison with non-family firms”, co-authored with Josep Tàpies.

Abstract: (See page 5).

This paper won the prize for the best research article awarded by IFERA, INALDE Business School and Inter-American Investment Corporation.
Marian Moszoro
On March 11-15, attended the 72nd Annual Conference organized by the American Society for Public Administration in Baltimore, where he presented the paper “Quality of government-regulated goods”.

Abstract: Regulators face the difficult task of determining the sets of price and quality of government-regulated goods. While the profit-maximizing monopoly always produces less in quantity than under free competition, the level of quality produced by the monopoly is not unequivocal: it depends on its cost and demand functions. The social effect of quality change is not unequivocal either, because it depends, apart from the cost function change, on the shift and tilt change of the demand curve. The problem lies in determining how the price elasticity of basic need goods responds to quality change and whether this change of quality is socially desirable. This paper analyzes quality as a decision variable in the government-regulated goods sector. Because the quality of government-regulated goods remains an externality, in particular cases the optimal level of the quality of these goods can be determined. Paradoxically, rate-of-return regulation may even make it impossible to achieve Pareto-efficient contracts for government-regulated goods.

He also served as moderator of the panel “Building partnerships for a green society. Environmental policy and the role of the public sector”.

Fernando Peñalva
On March 23-25, attended the VIII Workshop on Empirical Research in Financial Accounting, organized by Revista Española de Financiación y Contabilidad, in Seville, where he presented the paper “Accounting conservatism and the limits to earnings management”.

Abstract: We study the association between conservatism and both accrual and real earnings management. Conservatism facilitates the monitoring of insider decisions, potentially limiting the opportunities for within-GAAP accounting manipulation. Watts (2003) and Guay and Verrecchia (2006) argue that this monitoring role of conservatism leads to lower earnings management, while critical voices like Hermelin and Weisbach (2009) and Ewert and Wagenhofer (2005) claim that under tighter monitoring, managers have incentives to deviate from optimal decision making. To the extent that managers face constraints to manipulate accruals, we expect that they may shift to potentially more costly real earnings management practices, which they may, in fact, prefer (Graham, Harvey, and Rajgopal, 2005). Using a large United States sample for the period 1990-2006 we find a negative association between conservatism and measures of accruals manipulation, and a positive association between conservatism and real earnings management. This is consistent with the arguments in Hermelin and Weisbach (2009) that tighter monitoring can lead to inefficiencies in corporate governance.

He also acted as the discussant of the paper “Book-Tax Conformity in Europe”.

On April 21-22, attended the 2011 Annual Meeting of the European Accounting Association in Rome, where he presented the paper “Accounting conservatism and firm under-investment”, coauthored with J. M. García Lara and B. García Osma.

Abstract: We argue that conservatism reduces under-investment problems by facilitating firm access to external funds (Göx and Wagenhofer, 2009) and lowering cost of debt (Ahmed et al., 2002; Zhang, 2008). These beneficial effects of conservatism permit financing investment opportunities with positive net present values that otherwise might not be pursued because of lack of funding, or because the costs of accessing new funds outweigh the benefits of the projects. Our results are consistent with this expectation. We also show that the role of conservatism in reducing investment inefficiencies (both over- and under-investment) is more pronounced for firms with more opaque investments and where information asymmetries are more prevalent. Our results are robust to controls for firms’ governance structure and accruals quality, indicating that conservatism is a separate earnings attribute, with identifiable economic consequences.

Awards

Toni Dávila
His article “Building sustainable high-growth startup companies: Management systems as an accelerator” is one of three nominated by the California Management Review’s editorial board for the 2011 Accenture Award.
Doctoral Theses

Tomislav Rimac
ORGANIZATIONAL MECHANISMS FOR IMPLEMENTING SOCIAL CHANGE: THREE ESSAYS ON SOCIAL VENTURES
(IESE) thesis director: Johanna Mair

Abstract: This dissertation investigates the organizational mechanisms used by social entrepreneurs to influence the dynamics and outcomes of social change. Focusing on the intra-organizational level of analysis, I examine, in three separate essays, the mechanisms of socialization and innovation, and the configurations of organizational resources and capabilities used by social entrepreneurs to influence social change. The first essay is an in-depth case study exploring the role of agentry in the social change process. It shows that everyday practices are an important part of the change agentry repertoire of social entrepreneurs and are important mechanisms for implementing social change at the individual and organizational level. The second essay investigates the dynamics of innovation processes directed as social change. Its main contribution is a conceptual framework that offers a detailed view of the process and factors that may affect the evolvement of the process and its outcome. The third essay is an exploratory multi-method study based on the data on 522 social ventures from five EU countries investigating the link between social ventures’ resources and capabilities and the ventures’ impact on national policy-making. Results suggest that a combination of high reliance on reputation and collaboration resources together with ability to obtain funding from diverse sources may lead to ventures’ having an impact on national policy-making.

Economics
April 7
Speaker: José L. Peydró, European Central Bank
“Hazardous times for monetary policy: What do twenty-three million bank loans say about the effects of monetary policy on credit risk-taking?”

Abstract: We identify the effects of monetary policy on bank risk-taking with an exhaustive credit register containing loan contracts and applications since 1984. We separate the compositional changes in the credit supply from the demand, firm and bank balance-sheet channels by accounting for both observed and unobserved time-varying firm and bank heterogeneity through time “firm and time” bank fixed effects. A lower overnight interest rate induces lower capitalized banks to expand and prolong credit to riskier firms, and to lend to riskier new applicants, granting them loans that are larger and longer-term. A lower long-term rate, however, has smaller or no such effects.

Entrepreneurship
April 4
Speaker: Frederic Delmar, EMLYON Business School
“Endogenous growth through knowledge spillovers in entrepreneurship: An empirical test”

Abstract: Endogenous growth theory is based on the notion that technological knowledge stimulates growth, yet the micro foundations of this process are rarely investigated and remain obscure. Knowledge spillover theory posits that growth is contingent on the technology dependence of industries, forming the landscape for technology entrepreneurs to launch and grow new ventures. We investigate these theoretical contingencies of endogenous growth with two research questions at two levels of analysis: First, do industries with a greater need for new technology-based entrepreneurship grow disproportionately faster than other industries? Second, are the knowledge spillover effects
fostering the growth of new technology based firms contingent on certain industry structures? These questions are examined empirically, using a comprehensive employee-employer data set documenting the science and technology labor force in Sweden from 1995 to 2002.

**Finance**

*April 11*

Speaker: Ulf Axelson, London School of Economics and Political Science

"Investment banking careers: An equilibrium theory of overpaid jobs"

**Abstract:** We analyze a general equilibrium labor market model where moral hazard problems are a key concern. We show that variation in moral hazard across types of jobs explains contract terms, work patterns over time, and promotion structures. We explain why high-profile jobs such as investment banking pay more and give higher utility to the employee than other jobs, even if employees have no skill advantage. These jobs also have up-or-out contracts, and inefficiently long hours. Our model also provides a natural theory for promotion to more important tasks after success. We also derive two versions of talent misallocation: High profile employers like investment banks may lure workers whose talent would be more valuable elsewhere, and may reject “over qualified” job applicants – smart workers may be “too hard to manage,” because their high outside options make them respond less to firing incentives. Finally, we extend our model to a dynamic economy with demand shocks and show the following results: Workers entering the labor market in recessions suffer life-long disadvantages in the labor market; temporary demand shocks have long-lasting effects on productivity and the composition of the workforce; and moral hazard problems increase in good times for critical sectors in the economy, leading to both higher pay and higher failure rates.

**Managerial Decision Sciences**

*April 13*

Speaker: Philippe Delquié, George Washington University School of Business

“Risk tolerance as maximum acceptable loss: Experimental evidence from business executives”

**Abstract:** The risk tolerance coefficient of exponential utility (the most widely used utility form in Decision Analysis) was elicited of business executives, in a quasi-experimental setting, using one-shot questions. Two types of questions were used: 1) a standard method involving a 50-50 gamble often used in textbooks, and 2) a question based on the Maximum Acceptable Loss interpretation of the risk tolerance coefficient, presented in an earlier paper. As another manipulation, respondents were asked to state their risk preference either by specifying their maximum willingness to invest in the gamble; or by specifying their optimal, i.e. most desired, level of investment in the gamble. The former, which consists of finding an indifference point, is the standard approach in preference elicitation methods. The essential findings are: First, the method based on Maximum Acceptable Loss produces higher, and seemingly more plausible, risk tolerance coefficients than the usual 50-50 gamble approach. It is argued that the former is more likely to induce respondents to think in terms of global wealth, and is therefore more apt to elicit utility for total wealth, as opposed to changes in wealth. Second, the elicitation question based on most desired exposure to a gamble produces higher risk tolerance estimates than the question based on limit preference. Surprisingly in some cases, the question “what is your most desired level of investment” produces answers equal to “What is your maximum level of investment”. Interpretations of these results, and their implications for risk preference elicitation in general, will be discussed.

**Management People in Organizations**

*March 8*

Speaker: Paddy Miller, IESE

“Building a ‘creative culture’ for sustainable innovation”

**Abstract:** Innovation has shifted from being about one-off phenomena to being a continuous effort. As more companies face the need to build a system-wide and sustainable capacity for innovation, creating a “culture of innovation” is becoming a priority. The concept of an “innovation culture” remains undertheorized in the literature, however. We offer a conceptual and practical framework for building an innovation culture in an organization. Specifically, we show how a cultural infrastructure that orients actors in the practices of creativity and improvisation combines with individual meaning-making processes to simultaneously generate innovation and an innovation culture across an organization.

**Strategic Management**

*March 3*

Speaker: Koen H. Heimeriks, Rotterdam School of Management, Erasmus University

“Sequencing codification: How firms build successful alliance portfolios”

**Abstract:** This study examines how firms build successful alliance portfolios. Using extensive fieldwork and a survey sample of 192 technology firms that reports on over 3,400
strategic alliances, our results show that the ability to develop a successful alliance portfolio relates to the use of codification. Yet, our results reveal that codification is beneficial in some phases of the alliance process but detrimental in others. In the partner selection phase reliance on codified knowledge is helpful. By contrast, in the partner management phase reliance on codified knowledge is harmful. Overall, our results provide fresh insight into the contingent benefits of codification. More broadly, our study adds to the strategy literature by shedding light on the relationship between structure and performance and revealing how managers balance the fundamental tension between efficiency and flexibility inherent in key strategic growth processes such as alliances.

March 24
Speaker: Jason P. Davis, MIT, Sloan School of Management
“Network agency problems: Reconceptualizing brokers as a barrier to innovation and longevity in embedded relationships”

Abstract: This paper explores how managers overcome agency and knowledge problems that curtail network dynamics in organizations, focusing on developing wide interorganizational relationships to support collaborative innovation. Using a multi-case, inductive study of eight technology collaborations between ten firms in the computing and communications industries, this paper develops an alter centric account of network dynamics that explains how managers transform narrow relationships with few boundary-spanning ties into wide relationships rich with boundary-spanning ties. Comparisons of more and less innovative collaborations show that rather than leveraging existing ties to facilitate new ties that span boundaries, managers of innovative collaborations use pruning to remove brokers and bridging ties which are prominent sources of agency and knowledge problems that inhibit relationship growth. Second, rather than relying on egocentric processes to rewire these networks, managers of innovative collaborations follow pruning with pairing in which managers direct an alter centric cascade of local tie facilitation that flows down the hierarchy. The primary theoretical contribution is insight into how managers overcome agency and knowledge problems associated with brokers and bridging ties and, thereby, enhance network dynamics. Taken together, these pruning and pairing processes increase the structural alternatives available to managers, including the creation and destruction of specific structural holes and cohesive sub-groups. In the context of innovation, these processes enable organizations to search globally and locally for new and useful knowledge combinations. Overall, this research suggests that alter centric processes are responsible for network development inside organizations, including the intentional and sometimes useful dissolution of ties.

March 31
Speaker: Michael Russo, University of Oregon
“Institutional logics and regional cluster emergence: Evidence from the wind and solar energy industries”

Abstract: This study applies an institutional logics framework to model how cluster emergence is influenced by such factors as supportive institutional logics, knowledge spillovers, labor pooling, and technological uncertainty. We begin by contrasting two institutional logics that characterize thinking about the provision of electricity: one premised on scale-based generation using conventional fuels and a second premised on conservations and renewable sources of energy. We tie this latter institutional logic to the emergence of wind and solar manufacturing clusters in metropolitan areas. We find that a supportive institutional logic is connected to both types of clusters. We further find that the more uncertain technology, solar energy, benefits more than wind from a supportive institutional logic. We find limited support for the idea that a supportive institutional logic can enhance the effect of human assets on clustering in a region. We close by highlighting implications for research, practice, and policy.

April 11
Speaker: Ezra W. Zuckerman, MIT Sloan School of Management
“It’s the conventional thought that counts: The origins of status advantage in third-order inference”

Abstract: Why do we frequently observe status advantages – i.e., when high-status actors earn rewards that exceed what they merit – in meritocratic settings? Recent research understands status advantages as deriving from the social endogeneity of decision-makers’ attempts to infer quality from status: at the limit, if every decision-maker relies on status to determine quality, then quality ceases to determine status. A puzzle for this approach is that status advantages seem prevalent even where it is implausible that decision-makers (DMs) regard status as a good indicator of quality. To address this puzzle, we argue for a subtle shift in our assumptions about why DMs in meritocratic contexts typically care about quality – i.e. not to satisfy personal (“first-order”) preferences, but to coordinate with salient audiences. Under such conditions, DMs face the “third-order inference” problem of discerning who most members of a salient audience think (that most members think, etc.) is higher quality, and this induces a preference for higher-status actors regardless of their quality. Results from a consumer decision-making experiment validate the two key implications of our approach:
a) that socially endogeneous personal inferences of quality are not necessary to produce status advantage, and b) that status advantages emerge at the point of decision specifically when DMs engage in third-order inference.

Research Seminars

Bruno Cassiman
On March 24, at Zurich University, presented the paper “How to capture value from linking to basic research: Boundary crossing inventors and partnerships”.

Abstract: The paper studies combinations of mechanisms through which firms connect to basic research, and how they affect various dimensions of firm’s innovative performance: quality, cumulativeness and speed. We examine the case of IMEC, a world leading research institute in the area of nanotechnology, with a mission to bridge the gap between fundamental research at universities and R&D in the industry. We investigate the impact for firms of joining a partnership program with IMEC as well as the use of inventors who have “visited” IMEC. We find strong evidence that linking to IMEC has provided partner firms with more valuable technology outcomes that are appropriated better by these partner firms. Boundary crossing inventors increase the chance of developing high quality technologies. The data strongly suggest complementarity between institutional and inventor links particularly for better internal appropriation. Poaching firms without an organizational link to IMEC are less successful in using such boundary crossing inventors.

The same paper was presented: On April 7 at HEC, Paris and on April 11 at INSEAD, Fontainebleau.

Marian Moszoro
On March 7, at the World Bank, Washington, presented the paper “Efficient public-private capital structures”.

Abstract: This paper presents a model to assess the efficiency of the capital structure in public-private partnerships (PPP). A main argument supporting the PPP approach to investment projects is the transfer of managerial skills and know-how from the private partner to the investment vehicle. The paper shows how different managerial skills and knowledge transfer schemes determine an optimal shareholding structure of the PPP. Under the assumption of lower capital cost of the public partner and lower development outlays when the investment is carried out by a private investor, an optimal capital structure is achieved with both the public and the private parties as shareholders, i.e. a mixed public-private capital structure makes it possible to internalize the financial advantage of the public sector and the managerial advantage of the private sector.

Pedro Saffi
On March 10, at the Comisión Nacional del Mercado de Valores, Madrid, presented the paper “The role of institutional investors in voting: Evidence from the securities lending market”, co-authored with Reena Aggarwal and Jason Sturgess.

Abstract: We examine the role of institutional investors in the voting process by analyzing the changes in the equity lending market around the time of a vote. Using a comprehensive proprietary data set, we find a marked reduction in the supply of lendable shares around the time of a vote because institutions restrict or call back their loaned shares prior to a vote. The reduction in the supply of lendable shares is most pronounced in cases for which ISS
recommends voting against the proposal. Examining the subsequent vote outcome, we find that a recall in lending supply is associated with greater votes cast against both management and material proposals. There are also fewer favorable votes cast if ISS opposes management, and for firms with larger institutional ownership. Our results imply that institutions are willing to give up revenue from lending securities in order to exercise voting rights. To address concerns related to empty voting, we also examine changes in borrowing demand around the time of a vote. There is some evidence of increased demand around the time of the record date. However, we find no relation between voting outcome and borrowing demand at the record date. Our results indicate both that corporate governance is important to institutional investors and that the proxy process is an important channel for corporate governance.

The same paper was presented: On March 18 at Università Cattolica del Sacro Cuore, Milan. In April at Drexel Conference on Corporate Governance, Philadelphia; Federal Reserve Board, Washington; U.S. Securities and Exchange Commission; and UNC Academic Forum for Securities Lending Research, in New York.

Teaching Materials

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

Entrepreneurship

Unesco and the WTA
(E-110-E - 0.608.008)

The WTA and Unesco have announced a new partnership to promote gender equality around the world. Andrew Walker from the WTA is in charge of making this partnership work. The case raises issues associated with the social impact of professional sports. What do sport organizations bring to social partnerships? How can they make a difference in social efforts? How do you structure these efforts? Which programs do you choose? How do you measure whether you are achieving your objectives?

Dávila A.; Simon J.; 36 pages.

Financial Management

Is there an Optimal Funding Structure for Credit Institutions?
(FN-572-E - 0.210.007)

This technical note focuses on knowing the various sources of bank funding and their performance in recent years, especially during the financial crisis. It underscores the close link between “funding structure” and “liquidity” in credit institutions. It concludes that there is no bank funding structure, but that each case hinges on the asset policy of each particular lender. It notes the growing importance of liquidity risk management, which had been neglected by banks. (Also available in Spanish.)

Juny J.; Soley J.; 13 pages.

Stress Test: Credibility analysis of the EU Stress Test
(FN-584-E - 0.211.008)

In July 2010 the CEBS published the results of the EU-wide banking stress-tests. Practically all the banks exceeded the capital requirements, but right from the start there were doubts as to the level of the requirements and the failure to consider the impact of sovereign debt on the banks’ portfolios. The
turbulence of 2010 and the publication of Basel III demonstrate the need for new, more demanding and more transparent stress-tests during 2011. The note examines the parameters used in the tests and the pros and cons. (Also available in Spanish.)

Soley J.; Cutillas S.; 11 pages.

Managerial Decision Sciences

Language Exchange Club (LEC)
(AD-320-E - 0.110.014)

The case deals with assigning people to jobs. It focuses particularly on how to streamline team creation as effectively as possible. Although the case deals specifically with forming groups in one of IESE’s clubs, the methodology may be easily applied to any other type of team.

Baucells M.; de Santiago R.; Malagrida S.; 4 pages.

Tamklaan Medical Center
(AD-321-E - 0.110.015)

This case deals with allocation of shifts among Emergency Department doctors in a hospital. The challenge lies in the fact that the assignment has to take into account legal constraints, as well as hospital policy constraints. The case shows how to automate such a process, reducing the manager’s work load from 30 hours to less than 2.

de Santiago R.; Geren B.; 8 pages.

Toldhen Annual Convention
(AD-323-E - 0.111.004)

The case describes a problem of optimal assignment of executives to teams for four consecutive days in such a way that the teams are different each day and meet specific upper management requirements. The case, based on a real situation, provides an excellent framework for thinking about integer optimization.

de Santiago R.; 3 pages.

Wolf GmbH
(AD-325-E - 0.111.006)

In a highly uncertain environment, Wolf GmbH must decide whether to launch a new prototype boiler, the CE-1. The company’s managers must make their decision based on financial projections, using NPV and IRR as tools. (Also available in Spanish.)

García Castro R.; 3 pages.

Options on JP Morgan
(ADE-33-E - 0.111.001)

The case is meant to be used in two sessions. The first one would focus on how to price an option with simulation methods. The second session would concentrate on the Black-Scholes valuation method.

de Santiago R.; 2 pages.

Managing People in Organizations

A Cross Cultural Crash and Labour Conflict: Sài nóng Restaurant (A)
(DPO-203-E - 0.410.026)

This case tells the story of a Chinese restaurant chain that is purchased by an American food industry holding. Despite his successful career in the company, Juan Antonio is unable to reach an understanding with the Chinese workers, who enjoy special perks within the company because they are the cooks and the success of the business depends mostly on them. These workers are supervised directly by a manager specifically for Chinese workers and by the Group’s Operations Manager. The conflict develops when Jan, head of the kitchen in the restaurant managed by Juan Antonio, announces his intention to take a period of leave because his mother is sick. The company promotes the second chef to take his place and hires a new cook. However, a month goes by and Jan returns to work as if nothing has happened, ignoring Juan Antonio’s warnings that he does not work there anymore. When the director of Operations informs Jan that he has been transferred to another restaurant, half an hour away from Madrid, Jan confronts his replacement and the police is forced to step in and arrest him. Although the situation seems to have been resolved, the next day more than 100 Chinese cooks go on a wildcat strike and the chain is forced to close more than 14 restaurants. The strikers demand the reinstatement of their workmate, the firing of the Spanish Operations Manager, and a wage increase. (Also available in Spanish.)

Susaeta L.; Galan V.; Pin J. R.; 8 pages.
A Cross Cultural Crash and Labour Conflict: Sài Gòn Restaurant (B)
(DPO-204-E - 0.410.027)

Case B describes how the company decides to fire the 14 Chinese cooks leading the strike. Another 10 decide to leave the company in solidarity and the unions support the Chinese, claiming unfair dismissal.
(Also available in Spanish.)

Susaeta L.; Galan V.; Pin J. R.; 2 pages.

SAP’s Transformation from a Product to a Service Provider: The Business Transformation Academy
(DPO-215-E - 0.410.049)

The case discusses the strategic talent and stakeholder management issues that SAP faces as it transforms itself into a service provider. In 2000, SAP first decides to establish business consulting to assist customers in implementing software solutions. After long and controversial discussions about the core competencies of SAP, the company finally sets up a unit on Business Transformation Services that aims to support companies to successfully transform their businesses. However, SAP quickly realizes that the company lacks the necessary skills and talent as well as visibility in the market to offer the new services. To address these challenges, SAP founds the Business Transformation Academy (BTA), a thought leadership network on business transformation that brings together SAP executives, customer executives and academics. Axel Uhl, Head of the BTA, needs to decide on how to best manage the Academy to achieve its objectives and maintain commitment from the different members while also supporting SAP’s internal transformation.

Fischer M.; Reiche S.; Cardona P.; 14 pages.

La Masia, a School of Talent
(DPO-216-E - 0.410.050)

From the moment the young hopefuls of FC Barcelona’s youth program set foot in La Masia, a team of professionals oversees their all-round education on a day-to-day basis. The Barça model takes three key aspects – physical-sporting, intellectual, and moral – into account in order to turn the 10 or 11-year-olds who come to Barça’s soccer academy into excellent footballers and excellent human beings. In barely 30 years, La Masia has become the world’s best training ground for footballers, a school capable of detecting and developing football talent, while at the same time inculcating values and habits that help its young charges find happiness living the life they have chosen.
(Also available in Spanish.)

Susaeta L.; Pin J. R.; 6 pages.

A Cross Cultural Crash and Labour Conflict: Sài Gòn Restaurant (A & B) - Teaching Note
(DPOT-38-E - 5.410.028)

Cases DPO-203-E y DPO-204-E
Use is restricted to Academic Institutions.

Susaeta L.; Pin J. R.; 14 pages.

Siete claves de la creatividad: Lecciones desde el arte
(DPON-90 - 0.410.031)

Estas páginas tienen como objeto entender la creatividad y plantear modelos que permitan poner en diálogo la creatividad artística y la creatividad empresarial. La idea es abordar la innovación con un enfoque singular, aportando una perspectiva nueva desde una disciplina en la cual la innovación forma parte de su propia esencia, el arte. No se pretende aportar categorías, sino enlazar dos mundos a priori tan distantes como son el de la empresa y el del arte. Se sigue un criterio planteado por el pintor Mark Rothko, que servirá para entender cómo opera un artista, pero al mismo tiempo se puede plantear como una fórmula que ayudará a establecer un modelo de creatividad para entornos no artísticos. Nos apoyaremos también en ejemplos de otros artistas que destacan por su carácter innovador, haciendo una especial referencia a artistas que han hecho del mercado, y de su “self-branding”, base fundamental de su propia creatividad: Warhol, Koons o Murakami.

López-Remiro M.; Stein G.; 9 pages.

Marketing

The Shubert Organization: The Show Must Go On (condensed)
(M-1240-E - 0.510.020)

In January 2009, Bob Wankel sat in his office at the historic Sardi’s building on 44th Street, New York, as he considered the challenges ahead: several Broadway shows were closing, and a severe economic downturn threatened future productions. Many were calling for changes in the theater industry, and the Shubert Organization (where Mr. Wankel had worked for 33 years) had recently lost its
Chairman, Gerald Schoenfeld. As the firm’s new President and Co-chief executive officer, Mr. Wankel considered how he and newly named Chairman and Co-chief executive officer Phil Smith would navigate the firm through this turbulent time. Would they proceed in the same direction as their predecessor? What decisions would they need to make regarding the selection of shows, production, pricing, distribution and audience development? (Also available in Spanish.)

Beech M.A.; Villanueva J.; González J.; 17 pages.

**Web strategies and site traffic generation**
(MN-373-E - 0.511.001)

Greatly enriched by the Internet, the purchase decision process of customers has changed. Until a few years ago, the decision making involved in the purchasing process of a person or company that wanted to buy a product or service was more limited, as the scope for gathering information was confined to the so-called mass media (television, radio, press) and personal recommendation. Nowadays, the fact that our potential customers can get information from the Internet forces us to pay more attention to the online environment. We need to know it, understand it and find formulas that will accelerate the purchase decision process. For all these reasons, the Internet has become an essential medium. The purpose of this technical note is to introduce the online world and the strategies and tactics that will help us make our products and services more visible and establish closer contact with our customers. (Also available in Spanish.)


**Search Engine Optimization (SEO)**
(MN-374-E - 0.511.003)

In the digital world, search engines are shop windows. They are an absolute necessity for giving visibility to a business. A company that does not have a top position in online search results is missing opportunities to sell to, or communicate with, potential customers. And a business that does not appear in search results might as well not exist. Search engine optimization encompasses a range of techniques aimed at improving a website’s position on search engine results pages, so as to receive more traffic (in response to a given query by a user). In this technical note we explain the importance of SEO and introduce the main SEO techniques. (Also available in Spanish.)


**Search Engine Marketing (SEM)**
(MN-376-E - 0.511.008)

Search engines are shop windows, giving visibility to our products and promoting our company. Not to make good use of them is to miss an opportunity to build brand and sales. When a user conducts a search, the search engine displays the results it considers most relevant. On the one hand, it displays “organic” or “natural” results. These appear in the middle of the results page and are not paid for by the company. SEO techniques are used to optimize this kind of result. On the other hand, it displays paid results. Also known as sponsored links, these consist of text advertisements shown at the top of the results page. To optimize this kind of result we use SEM techniques. In this technical note we shall focus on sponsored links and how we can use them to achieve our business objectives. (Also available in Spanish.)


**Production, Technology and Operations Management**

**TMC - The Telemedicine Clinic: Distributing Diagnostic Competence**
(P-1102-E -0.610.015)

With this rapid success, David, now the Managing Director, faced new challenges. In his new office on the 21st floor of the Mapfre Tower, overlooking the Mediterranean Sea, he contemplated the next board meeting, where decisions would need to be taken. The rapid expansion in demand was straining the existing professional network, attention to current customers was becoming difficult, legal obligations expensive, and all these demands left few resources to pursue essential competency development aims. (Also available in Spanish.)

Haberl C.; Dunbar A.; Rosenmöller M.; 21 pages.

**Strategic Management**

**Estrategia y Dirección Estratégica**
(SMN-675 - 0.311.004)

Resumen del concepto de estrategia, niveles de estrategia, estrategia corporativa, estrategia competitiva o de negocio, y modelos de negocio, a partir de las notas correspondientes a cada uno de estos temas.

Ricart J.E.; 23 pages.
Creating and Nurturing your Social Network: The Art of Building Long-term Mutually Beneficial Relationships

Networking is the art of building long-term mutually beneficial relationships, and this note will describe what social networks can do, what networking is, and what it is not. We provide seven suggestions on how to begin the process of building your network.

Neill C.; Ferraro F.; 9 pages.

Occasional Papers

OP-188 – March 2011
José R. Pin – Salvador Plaza – Guido Stein
LA REFORMA LABORAL DE LA LEY 35/2010: CAMBIOS EN LA CONTRATACION TEMPORAL. ¿CONVERGENCIA HACIA EUROPA?

Abstract: El documento presenta los cambios establecidos por la reforma laboral de la Ley 35/2010 en cuanto a contractación temporal. Asimismo, también se realiza una comparación de las legislaciones vigentes en Reino Unido, Alemania y Francia. Se trata de un breve análisis que nos permite observar si, con las reformas implantadas, nos acercamos a los estándares extendidos en los países europeos de mayor relevancia. La comparación de legislaciones nos permite constatar que los cambios introducidos suponen un acercamiento hacia la legislación laboral francesa. También destacamos algunos casos contemplados por la legislación alemana que podría ser buenos ejemplos de best practices.

OP-189 – March 2011
Angel L. López
PRECIOS DE TERMINACION DE LLAMADA EN TELEFONIA MOVIL. SUS EFECTOS SOBRE LA COMPETENCIA Y EL BIENESTAR SOCIAL

Abstract: Este artículo analiza el impacto de los precios de terminación de llamada sobre la competencia, el beneficio de las empresas y el bienestar social. Para ello, describe en qué consiste el efecto waterbed y las implicaciones de un precio de terminación por debajo del coste. El artículo concluye presentando la regulación de los precios de terminación de llamada en España y discutiendo sus posibles efectos sobre la competencia en el mercado.