

## CEOs' Words May Foretell the Future

What CEOs say today may predict how well their organizations innovate tomorrow, according to a study forthcoming in the *Journal of Marketing*. Three researchers have found that the number of future-oriented sentences that a CEO uses in a company's annual report can predict its future innovation.

The paper, "Managing the Future: CEO Attention and Innovation Outcomes," was co-authored by Rajesh Chandy, professor of marketing at the University of Minnesota's Carlson School of Management in Minneapolis; Manjit S. Yadav, associate professor of marketing at Texas A&M University's Mays Business School in College Station; and Jaideep C. Prabhu, professor of marketing at Imperial College's Tanaka Business School in London, England. The researchers studied empirical data collected from the



Rajesh Chandy



Jaideep Prabhu



Manjit Yadav

online banking industry over eight years to determine innovation outcomes such as speed of development and breadth of technological deployment.

By counting the number of future-oriented words and phrases in letters to shareholders over this period of time, the researchers were able to predict the level of innovation of that firm up to five years later.

What CEOs say to shareholders can inspire and motivate employees to innovate, the authors say. When a CEO's attention is focused on internal problems rather than the company's future direction, employees' innovation may stall. "The daily pressures from inside the corporation tend to take up the bulk of the CEOs' time, over-

whelming their attention spans," explains Chandy. "But because the CEO sets the tone and culture, not thinking forward and outside the firm has major consequences for innovation."

The researchers advise CEOs to direct their attention to the big picture, while letting others take care of the day-to-day problems that can distract CEOs from their true purpose—moving the company forward. "The temptation to focus on fires within the firm may cause CEOs to take their eyes off their jobs," says Chandy. "A CEO who focuses on the big picture, not the nitty-gritty, will influence the process of innovation and future outcomes of the firm."

## Research on Entrepreneurship on the Rise

While entrepreneurship has been the topic of many courses and much discussion, research into the field has been less pervasive. However, a study by three researchers at the Georgia Institute of Technology's College of Management in Atlanta has found that, over the last few years, academic research activity on entrepreneurship has been increasing.



Frank Rothaermel

Frank Rothaermel, associate professor of strategic management, and doctoral students Shanti Agung and Lin Jiang surveyed the number of academic studies on entrepreneurship in the U.S. over the past 25 years. They found that 173 articles had been published in 28 academic journals by 232 scholars from 1981 to 2005. However, 127 of them were authored from 2000 to 2005. Moreover, 69 percent of these more recent articles were authored by only 65 researchers.

The authors identified four primary research areas of interest in the field of entrepreneurship: the entrepreneurial research university, the productivity of technology transfer offices, new firm creation, and the environmental context for entrepreneurship.

The authors cite several reasons for the increase in research over the last 25 years. The passage of the Bayh-Dole Act of 1980 started the trend, they argue, by providing universities with government funding to patent scientific breakthroughs and spurring the growth of entrepreneurial courses and degree programs. They also point

to the increase in the number and mobility of scientists and engineers, as well as the development of important technological breakthroughs in computing, biotechnology, and nanotechnology.

Rothaermel, Agung, and Jiang conducted the research for the Ewing Marion Kauffman Foundation. To download the full report, visit [www.universityentrepreneurshipresearch.com](http://www.universityentrepreneurshipresearch.com).

### **Fewer Trade Barriers, Higher Productivity**

The elimination of trade barriers between nations could be a boon to productivity, according to a study by two Canadian economics professors.

Daniel Trefler of the University of Toronto's Rotman School of Management and Alla Lileeva of York University's department of economics in Toronto looked closely at Canadian companies before and after the enactment of the Canada-U.S. Free Trade Agreement (FTA) in 1989. They found that companies with low productivity levels before the FTA made significant productivity gains after 1989.

Trefler and Lileeva surmise that the elimination of trade barriers created the right conditions for companies to make investments in productivity, innovation, and manufacturing technology related to production and inventory control. In fact, low productivity companies that began to export after 1989 adopted new technology at more than two times the rate of their nonexporting counterparts. As a result, these companies improved not only their productivity but their sales performance in Canada: Their sales improved by as much as 20 percent over eight years.

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## UMPIRES WERE MORE LIKELY TO CALL STRIKES WHEN THEY AND THE PITCHERS SHARED THE SAME RACE OR ETHNICITY.

Overall, small companies were the big winners, the researchers found. Larger companies that had already made major investments in productivity did not see the same gains as smaller companies that had yet to take the plunge.

Even so, researchers conclude that such higher rates of productivity among smaller companies can lead to higher tax revenues for government, which leads to more money for social programs. These findings indicate that “interprovincial trade barriers should be eliminated as much as possible at home to make the Canadian market as accessible as it can be,” says Trefler. He also

advocates that Canada eliminate any technical trade barriers that still exist between it and the U.S.

See the full study, “Improved Access to Foreign Markets Raises Plant-Level Productivity ... for Some Plants,” at [www.rotman.utoronto.ca/pdf/Trefler1.pdf](http://www.rotman.utoronto.ca/pdf/Trefler1.pdf).

### Racial Bias and Major League Baseball

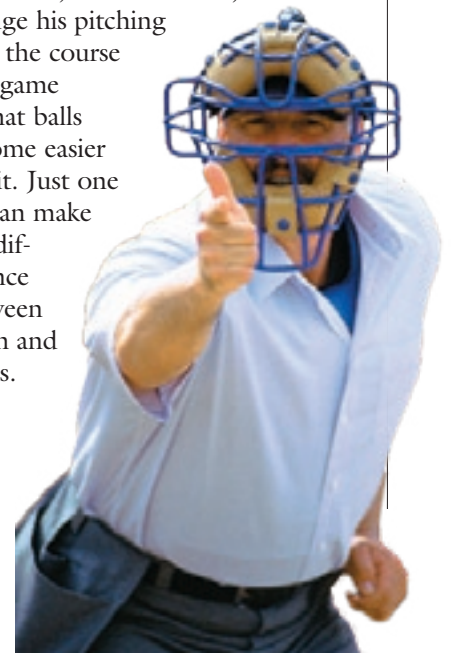
**Pitchers in Major League Baseball may have an advantage when they share the same race or ethnicity as the umpires behind home plate, according to the research findings of Christopher Parsons, associate professor of finance at**

McGill University in Montreal, Quebec, in Canada; Johan Sulaeman, a graduate student at the University of Texas at Austin; Michael Yates, assistant professor of finance at Auburn University in Alabama; and Daniel Hamermesh, professor of economics at UT-Austin.

The researchers analyzed every pitch in three seasons of major league baseball between 2004 and 2006—2,120,166 pitches in all. They wanted to see whether race played a role in how an umpire called a game.

They found that umpires were more likely to call strikes when they and the pitchers shared the same race or ethnicity. In this case, umpires were .34 percent more likely to call a pitch a strike.

This percentage may seem small—it averages out to less than one pitch per game. However, the researchers argue that one pitch can have huge consequences in a low-scoring game like baseball. In their paper, the authors cite the hypothetical example of a black pitcher facing a Hispanic umpire. In this instance, the pitcher may be awarded fewer close calls, and as a result, change his pitching over the course of a game so that balls become easier to hit. Just one hit can make the difference between a win and a loss.



## STUDY BRIEFS

### THE DOWNSIDE OF INCENTIVES

Financial incentives intended to motivate stronger performance—such as bonuses and commissions—may have the opposite effect. In a recent article for *The Conference Board Review*, Jeffrey Pfeffer, professor of organizational behavior at Stanford Business School in California, finds that incentives may actually encourage bad behaviors. For example, Pfeffer cites what happened when officials of the city of Albuquerque, New Mexico, decided to pay trash workers for eight hours of work, even if they finished their routes more quickly. The city hoped the policy would reduce overtime and encourage efficiency. Instead, workers began to miss pickups; exceed speed limits, causing accidents; and overload their trucks, incurring fines. Companies that plan to offer financial incentives to boost performance may do well to consider other options, Pfeffer writes: “Incentives should be used not to

drive behavior but instead to provide recognition and share a company’s success with employees.”

### NEW ROLES FOR HR

In their Human Resources Competency Study, conducted for the consulting firm RBL Group of Provo, Utah, researchers at the University of Michigan’s Ross School of Business in Ann Arbor identified six core competencies that up-and-coming human resources professionals will need to succeed. They need to perform as *credible activists* who command respect and have impact; *stewards of culture and change* who shape corporate culture; *talent managers/organizational designers* who can find and retain talent; *strategy architects* who have a vision of the firm’s future success; *operational executors* who can manage people and serve employees well; and *business allies* who understand the markets where their companies operate.

The study also found that such bias disappeared in ballparks where the league has installed electronic monitoring systems that check the accuracy of an umpire's calls. In addition, the researchers also found no bias when a call was critical—when it could result in the batter's striking out, for instance, or when it occurred near the end of a very close game.

The authors see this research as indicative of subtle discrimination that can have big outcomes in other venues, such as the workplace. "Discrimination affects the outcome of a game and the labor market, determining the pitcher's market value and compensation," says Hamermesh. "From an economics perspective, this is troubling."

If such subtle bias occurs during a worker's performance evaluations, he adds, it could be incredibly difficult to detect discrimination in other areas. Plus, small occurrences of bias could have a much larger impact on a worker's career.

Read the entire paper, "Strike Three: Umpires' Demand for Discrimination," at [www.eco.utexas.edu/faculty/Hamermesh/Baseball4Authors.pdf](http://www.eco.utexas.edu/faculty/Hamermesh/Baseball4Authors.pdf).

## The Economic Costs of Climate Change

Climate change in North Carolina over the next 30 to 75 years will have significant economic consequences for the state, according to the new study, "Measuring the Impacts of Climate Change on North Carolina Coastal Resources." The study was conducted by Germany's Potsdam Institute for Climate Impact Research and three North Carolina economists: lead author John Whitehead of Appalachian State University

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in Boone; Okmyung “Paul” Bin of the department of economics at East Carolina University in Greenville; and Chris Dumas of the department of economics and finance at the University of North Carolina at Wilmington.

Funded by a grant from the National Commission on Energy Policy, the study surveyed the North Carolinian counties of New Hanover, Dare, Carteret, and Bertie, which represent a cross-section of the state’s coastline in terms of geographical distribution and economic development. They found that the state’s coastal topography makes it economically and ecologically vulnerable to hurricanes or a rise in sea level.

For example, the study found that a one- to three-foot rise in sea level along this cross-section could cause \$6.9 billion loss in property

value, and billions more in interruptions to business and tourism, over the next 75 years. By 2080, hurricanes could equate to losses that amount to as much as \$157 million per storm event. In that time frame, 14 of 17 recreational swimming beaches in southern North Carolina also could erode completely, unless something is done to prevent it.

The researchers hope that the study will convince policymakers of the need to address the issue of climate change. “The benefits of implementing climate change policy would occur further down the road, which makes them easier to ignore or postpone,” says Whitehead. “We hope this study will fill in some of the gaps in knowledge about this issue.”

The full study is available at [econ.upstate.edu/climate/](http://econ.upstate.edu/climate/).

## ■ A Slow Journey to Bad Behavior



Francesca Gino

**New research suggests that unethical behavior is often not the result of deliberate fraudulent acts by bad people. Instead, it can happen as a consequence of a gradual decline of ethical standards by individuals in an organization over time, according to Francesca Gino of Carnegie Mellon University’s Tepper School of Business in Pittsburgh and Max Bazerman of Harvard Business School in Cambridge, Massachusetts.**

For their paper, “Slippery Slopes and Misconduct: The Effect of Gradual Degradation on the Failure to Notice Others,” Gino and Bazerman conducted four experiments with 330 subjects, who were shown pictures of jars filled with pennies. In each experiment, “estimators”

## UPCOMING & ONGOING

### ■ \$6 MILLION FOR INNOVATION

The Sorenson Legacy Foundation has donated \$6 million to the University of Utah’s Eccles School of Business in Salt Lake City for the creation of an interdisciplinary center for the study of discovery and innovation. Named after medical device inventor James LeVoy Sorenson, the new center will encourage multidisciplinary examination of innovation and discovery as the primary tools in progress and economic development. The Eccles School will name a Chair of Discovery and Innovation Studies to direct the center’s research. In addition, the center will sponsor the Tech Titans Innovation Challenge, a statewide student idea and design competition.

### ■ NEW CENTER ON CHINESE BIZ

Indiana University in Bloomington has opened an interdisciplinary Research Center for Chinese Politics and Business, which aims to help scholars and business professionals better understand the complexity of China’s economy and political system. Twelve faculty from IU’s Kelley School of Business, College of Arts and Sciences, and School of Public and Environmental Affairs will engage in the center’s scholarship. The center also will organize lectures, faculty roundtables, conferences, and outreach to business professionals throughout the Midwest.

### ■ INNOVATION WINNER

The Association of European Operational Research Societies




(EURO) recently recognized three professors for the paper, “Designing Mechanisms for the Management of Carrier Alliances.” The paper was authored by Lori Houghtalen, a professor in the mathematics and science division of Babson College in Wellesley, Massachusetts; Ozlem Ergun, an assistant professor at the Georgia Institute of Technology in Atlanta; and Joel Sokol, an associate professor at Georgia Tech. EURO presented them with its Management Science Strategic Innovation Prize for the study, which outlined the technical and legal challenges associated with integrating information systems of autonomous carriers when they form alliances. It also explored ways to best manage these alliances while ensuring sustainability.

offered different estimates for the amount of money in the jar. The subjects were asked to play the role of “approvers,” accepting or rejecting the estimates. Subjects were also told that they and the estimators would be paid more for higher-approved estimates. However, they risked a penalty for approving exaggerated estimates.

In some of the experiments, estimators changed the amount of their estimates abruptly; in others, their estimates increased gradually. Individuals were more likely to approve very high estimates if estimators built to them gradually, rather than making the leap all at once.

The researchers believe these findings support the conclusion that fraudulent behavior can often be blamed on employees’ failure to notice the gradual erosion in an organization’s ethical environment—not on deliberate attempts to defraud.

“We find that individuals are more apt to engage in unethical behavior when it falls along a slippery slope, because they aren’t aware that it’s happening,” Gino says. She draws an analogy to “boiling frog syndrome,” which holds that frogs will hop out of boiling water, but will slowly cook to death when placed in cool water that is gradually heated.

The best way for companies to combat this tendency is to focus less on changing the behavior of individual employees and more on changing the organizational factors that feed these types of gradual breakdowns. “Companies must clearly and consistently communicate ethical standards to employees and strive to create a culture where there’s a commitment to doing the right thing,” Gino says. 



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