

ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

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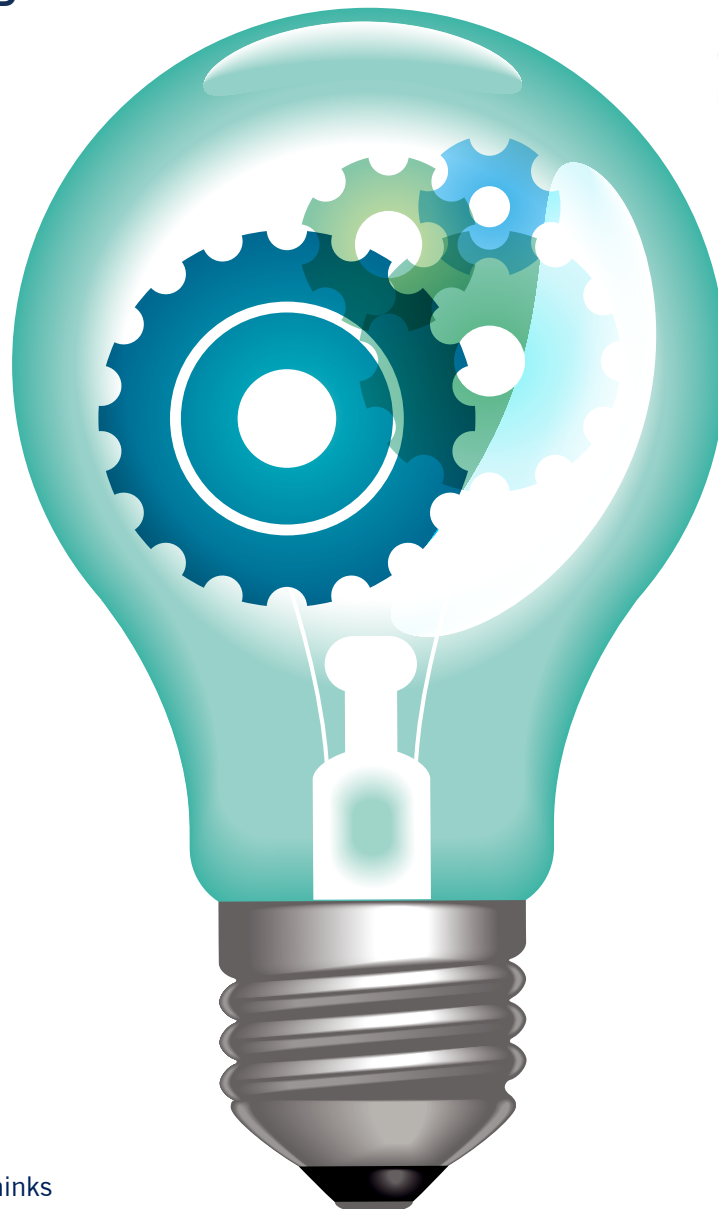
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by Luca Berchicci

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by Lars Norden

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by Niek Hoogervorst

A perennial question faced by managers is how much they should listen to their employees. Let no employee have a say and you encourage foot-dragging, hurt morale, and develop a reputation as an unfair manager. Listen too much and you may paralyse the organisation, still hurt morale, and earn a reputation as an ineffective leader.

Introduction



Management innovation: how management scholars can solve the innovation paradox

Several studies have pointed to the relevance of non-technological determinants of innovation such as new management practices, new business models or new managerial capabilities. Unfortunately, most management scholars have been silent in this debate, which has been dominated by economists, sociologists and engineers. In this edition of *RSM Insight*, however, we show that management scholars have much to offer to help bridge the innovation gap. Europe has an excellent record in knowledge creation, but a mediocre record in innovation activity, which is defined as the successful transfer and application of knowledge in new products and services.

Evidence from both SMEs and large firms shows that successful innovation is not just the result of technological inventions, but is also heavily reliant on what is called “management innovation”. Management innovation is defined as changing a firm’s organisation, management and labour in a way that is new to the organisation and/or the industry, with the effect of leveraging the firm’s technological knowledge base and improving organisational performance.

For Europe, more active stimulation of management innovation and its leverage of technological innovation will be crucial to sustain long-term competitiveness. This issue of *RSM Insight* shows the various ways in which management innovation and its leverage of technological innovation can be enhanced within a firm; between firms through open innovation networks, and during interaction with institutional stakeholders. Please read the great contributions of Luca Berchicci on the pros and cons of open R&D development, and the work of Daan Stam and co-authors on how teams can optimise idea generation. We also feature the first *RSM Insight* debate, in which leading management scholars from RSM discuss what it takes to innovate successfully.

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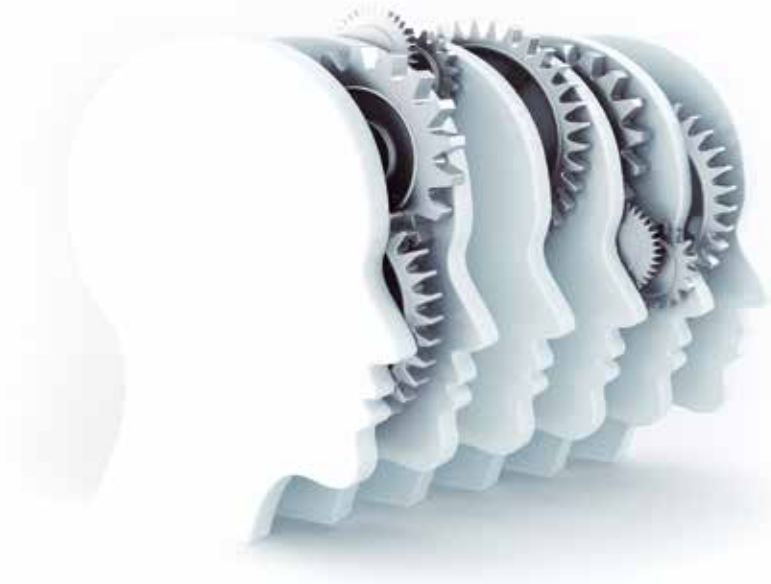
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Paving the way in neuroeconomics

Rebecca Morris interviews Ale Smidts

Why the Erasmus Centre for Neuroeconomics is making a name for itself in research that applies brain-scanning technology to economics and marketing issues.



A recent neuromarketing world forum held in New York enticed business leaders and academics from around the world to 'Rethink Advertising' and learn the secrets behind the 'Success of iconic brands'.

On the agenda of the event, at which RSM's Professor Ale Smidts was a keynote speaker, were the latest studies to emerge from a small but elite group of business schools demonstrating ways in which brain-imaging technology can advance

our understanding of – and ability to predict – consumer behaviour. Among the research presented were case studies with consumer giants Estee Lauder and Fox Sports.

Neuroeconomics – and its more applied offspring "neuromarketing" – is currently one of the fastest growing and revolutionary areas in management and economic research. It unabashedly crosses the boundaries of academic disciplines, borrowing insights and high-tech medical

tools from neuroscience and applying them to questions of a business or economic nature.

The field is gaining the endorsement of some of the world's leading academic institutions – among them the Erasmus Centre for Neuroeconomics. And companies are following suit. Because while its research methods are novel, perhaps most intriguing about this field is its potential to produce revelatory new knowledge that is of interest to both scientists and practitioners.

Brain-scanning technologies – advanced versions of the electroencephalograph (EEG) and the more expensive functional magnetic resonance imaging machine (fMRI) – can offer economists rich new data streams. Of considerable applied interest is its potential *predictive* power regarding how markets will respond to market offerings and advertising.

'It's an exciting area of new research that is both challenging and inspiring,' says Ale Smidts, a professor of marketing research at RSM and chair of the school's marketing management department 'One of the reasons neuroscience techniques are so useful in an economic context is that much of our decision-making as consumers goes on at a sub-conscious level. With neuroimaging techniques we can now directly observe and measure these implicit or unconscious processes ▶

Paving the way in neuroeconomics (continued)

Rebecca Morris interviews Ale Smidts

– information that is not accessible through conventional methodology such as self-reporting.’

Which is why neuroeconomics holds such allure for marketers – where conventional market research methods fall short, perhaps neuromarketing techniques can succeed, helping companies to tweak their products and adverts to more precisely reflect consumers' desires.

The value of neuroeconomics

One of the research lines at the Erasmus Centre for Neuroeconomics compares the predictive power of data from neural-focus groups with those of conventional market research methods. Neural-focus groups use brain-imaging technology to examine the brain responses of 30 to 40 consumers to marketing stimuli.

One such study monitored individuals' brain responses to different adverts promoting the same product, a muscle soothing gel.

Twelve different advert executions were tested, each 30 seconds long and including the same branding and product but utilising different selling techniques. To measure the effect of the advert at the market level, twelve groups of consumers were selected, each exposed to one advert with the option to click through and “buy”

the product, as well as give a verbal evaluation of their advert preference. Brain activity was then compared with the self-reporting evaluations and the choice behaviour.

What emerged reveals something about why both scientists and practitioners are excited about neuroeconomics. The brain responses proved to be more accurate predictions of the choice behaviour than the self-reports.

Another study in the process of completion, thus far reveals similar findings. Individuals were asked to watch movie trailers while their brain activity was monitored using an EEG scanner. They were also asked to verbally rate the movie.

Self-ratings of the trailers were not predictive of the US box office results, ie, they did *not* reflect the success or failure of the movie in the marketplace. The brain responses, on the other hand – did.

‘The findings are very promising for a scenario in which brain response data is used to enhance self-report measures,’ says Smidts.

At RSM, research into neuroeconomics began ten years ago with the advent of brain-imaging technology – fMRI – and refinements in brain-wave technology (primarily EEG).

At the time, very little research on choice behaviour had been conducted using these techniques. Professor Ale Smidts – then the director of the Erasmus Research Institute of Management – collaborated with neuroimaging specialists from the Donders Institute for Brain, Cognition and Behaviour at Radboud University in Nijmegen, to conduct the first project

“One of the reasons neuroscience techniques are so useful in an economic context is that much of our decision-making as consumers goes on at a sub-conscious level.”

Prof. Ale Smidts, Director, Erasmus Centre for Neuroeconomics.

of its kind on brain mechanisms of persuasion, later published in *Social Cognitive and Affective Neuroscience (SCAN)*.

Other research followed which examined the neural processes

underlying the influence of an individual's peer group, later published in the top neuroscience journals *Neuron* and the *Journal of Neuroscience*, and becoming a highly influential paper in the scientific world.

Six researchers including assistant professor Maarten Boksem, an expert in EEG and fMRI, now conduct research into neuromarketing at RSM – making it one of the largest groups working in the field in Europe. Most have backgrounds in neuroscience, biology or psychology.

The research strives to improve our understanding of consumer decision-making, while demonstrating how biological measures can add value to existing marketing research methodology. Also among its goals is to test how viable these methods are as a means of predicting market responses and, most importantly, how brain responses can help in the development phase of products or adverts.

And herein lies a critical point, says Smidts. Neuroeconomics is a seminal area of research and these tools and techniques are still being refined and evaluated. Which calls into question the reliability of the data currently being produced by neuromarketing consultancy firms. How meaningful are their predictions?

Commercialising the technology

The lack of transparency around neuromarketers' interpretation of data is of concern to Smidts. Few can verify their claims, and there is no regulation of the industry. Which is why he called for "evidence-based neuromarketing" at the world forum conference two years ago.

'It's really important for the industry to develop norms and quality guidelines so that these consultancy firms do not over promise, and so that buyers of their services can trust that the analyses are correct,' he says.

Currently working on establishing these guidelines is the Neuromarketing Science & Business Association (NMSBA), established three years ago in Amsterdam, and organiser of the annual Neuromarketing World Forum.

As for RSM, business is increasingly interested in the results of its research. RSM is collaborating with industry on several neuromarketing projects, while there is increasing demand for experts – such as Smidts – to present at industry events. And while the focus remains on research, Smidts has not ruled out collaborating with a consultancy firm to offer a quality service to companies.

In the meantime, neuroimaging scanners and the software for analysing data continue to advance



and proffer ever more possibilities. The field is sure to remain a fertile area of academic research, but what the business future holds is more difficult to predict.

'It's still an open question how far companies will go in wanting to use this technology,' says Smidts. 'Companies are definitely interested in reducing their risk when it comes to introducing a new product or advertising campaign in the international market, where there are so many uncertainties. Neural-focus groups could well be a welcome and cost-effective additional method of getting crucial insights.'

More information about the centre, its goals and research themes can be found at www.erim.eur.nl/neuroeconomics

Innovate or perish

The *RSM Insight* debate

by Russell Gilbert

Although innovation is one the hottest management topics of the 21st century, very few firms excel at it. Here, in the first *RSM Insight* debate, three of the school's leading management scholars discuss how firms should approach the subject of innovation and what it takes to be successful at it.

The three panellists, each an acknowledged expert on innovation, are: Jan van den Ende, Professor of Management of Technology and Innovation; Eric van Heck, Professor of Information Management and Markets, and Henk Volberda, Professor of Strategic Management & Business Policy. Moderating the discussion is Anieke Wierenga, Innovation Director Food at Corbion Purac, a world market leader in natural food preservation and bio-based building blocks.

Anieke Wierenga (AW): *Let's start with the obvious question. What is innovation?*

Prof. Eric van Heck (EvH): Innovation is about rethinking the ways in which companies work, how they do business, and how they serve customers. No matter whether an organisation wants to change its relationship with employees, partners, suppliers or customers, digitalisation is both a driver and an enabler of reinvention and innovation.

At RSM, we build cutting-edge systems and software prototypes

with companies. One exciting project centres on the development of intelligent software agents for FloraHolland, the world's largest flower auction. By data mining FloraHolland's customer transactions and using the information to develop intelligent algorithms, we're actively helping auctioneers in their daily decision-making. The algorithms are embedded in a decision support system and process vast amounts of data very quickly. The system will be a crucial element of the next generation flower auctions. This is innovation through digitalisation.

Prof. Jan van den Ende (JvdE): Innovation is about developing new offerings for your customers. This can be in the form of new products and services, or novel business models that enable organisations to develop new ways of reaching, communicating and doing business with clients.

Central to success is excellent innovation management. Innovation management involves successfully creating and implementing innovations. This includes having the right processes, organisational structures and leadership

styles that help the development of innovation. An example is Philips, which has created clear processes for developing and commercialising innovation. Attention should not be only given to the generation of ideas; a process for implementation is just as crucial. Typically, companies are often stronger in one aspect than the other.

We worked with Shell to understand what they call the "game changer". Shell developed a process to collect ideas that originate inside and outside of the company. Its GameChanger programme has saved Shell hundreds of millions of euros because of the ideas that have come out of it.

Innovation processes must be supported by the right organisational structure. An organisation with very little structure may be good at creativity, but will not be good at implementation. And, while firms must consider how every aspect of the business might be improved, they should not have everybody working on developing new products or services.

Possibly the most over-looked form of innovation is disruptive innovation. This is where changes made to a product or service – usually at the low end of a market – gradually gain widespread acceptance so that it eventually usurps the established competition. A good example is Ryanair, which offers lower quality services than



traditional airlines and still makes huge profits today while competing airlines make losses. It's overlooked because companies want to make an immediate impact at the top end of the market.

Prof. Henk Volberda (HV): Innovation can be about developing completely new products and services in new markets – radical innovation – or improved products and services for existing markets – incremental innovation.

Radical innovation, where firms create new business models and reinvent themselves, is seen as being very exciting. A perfect example is the science-based company DSM. It has reinvented itself several times with its core focus shifting from mining to chemicals to life sciences and materials. Today its focus also includes sustainability.

doesn't necessarily result in innovation. When organisational structures are too hierarchical and lack horizontal linkages, it is very difficult to transform an invention into an innovation. For technological innovations to be successfully realised requires innovation in management.

Studies we've conducted at INSCOPE – Research for Innovation into the effects of technological innovation versus management innovation show that while technological innovation is important, and firms should invest more in research and development (R&D), it contributes just 25 per cent to innovation success. By contrast, 75 per cent of innovation success is determined by management innovation, that is, by the leadership style, the ways in which processes are organised, the

working (Innovation 3.0), can multiply their sales of new products and services by a factor of four.

JvdE: I completely agree that management is essential for successful innovation. As I said earlier, proper innovation management is crucial, and firms should look to improve how they manage innovation. However, "innovation management" is different from "management innovation". Innovation management is about managing the innovation process, while management innovation is much broader, and involves changing your rules, structures and processes in a company on a permanent basis.

Although firms should not remain stationary, I do not believe in a management policy of continual change just for its own sake. If firms reach a point where they are satisfied with what they are doing then there is no value in changing. In addition, it is my belief that there is insufficient academic evidence to conclude that management innovation has a positive effect.

HV: Studies we've conducted at INSCOPE into the impact of management innovation on innovation performance show that it has very positive effects on incremental innovation. However, if firms make small steps towards management innovation – experiment with transformational leadership, flat horizontal structures ▶

“Innovation processes must be supported by the right organisational structure.”

Eric van Heck, Professor of Information Management and Markets.

Additionally, DSM insists that 15 per cent of all annual sales must come from new products and services. This enables the company to significantly boost its innovation performance.

Technological innovation is aligned to invention – the process of creating something new. However, invention

firm's investments in human capital and by co-creation with external partners. Findings of the Erasmus Competition and Innovation Monitor show that firms which not only invest in technological innovation, but also make complementary innovations through new ways of managing, organising, and

Innovate or perish

The *RSM Insight* debate (continued)

by Russell Gilbert

and self-organising teams, for example – we see that at low levels there is a negative effect on radical innovation. At high levels of management innovation we see an increasing positive effect on radical innovation.

AW: *Where do you begin when advising a CEO who wants to make their company more innovative?*

JvdE: A number of questions need to be asked. Who is doing the innovating? Are people from different units involved, and are there processes in place to manage it? I would also ask how the project portfolio is managed so that the criteria for project selection are ascertained. Is there an explicit

understanding what's happening. It's part of the CEO's responsibility.

The next question to ask is how much time they are spending on the digitalisation of the company, not just in discussion with the board, but actually hands on.

Then it comes down to budgets; how much is spent on R&D, and how much is spent on using IT as a strategic asset? Most companies spend 70 per cent of IT budgets on legacy systems and 30 per cent on new developments. Truly innovative companies have those amounts reversed, and this is only possible if you are an IT-savvy firm.

HV: I would also want to know about the company's R&D effectiveness. By that I mean how many projects really

I would also want to know whether the CEO has an exploitation mindset geared to financial results, or whether they offer transformational leadership more focused on exploration and radical innovation.

AW: *What role should Human Resource departments play in innovation?*

HV: When visiting companies, I always ask HR managers what they think about innovation. They invariably reply that it's not their department!

EvH: This is a really fundamental issue. Most firms are organised in old-fashioned, functional ways, and real innovations are the result of combinations of capabilities from different areas. Therefore, a key capability for organisations is how these traditionally oriented departments can work together to come up with new and creative solutions. This means that HR teams need to work with all departments. This is a challenge because every department speaks a different language and has different concepts.

JvdE: Collaboration between different business units is imperative if a firm is to innovate. More than that, people have to be willing – and able – to work with others; and their collaborations have to be supported by IT as far as possible.

A clear vision from top management encourages everyone in the

“A clear vision from top management encourages everyone in the organisation to support innovation and helps foster an innovation culture.”

Jan van den Ende, Professor of Management of Technology and Innovation.

innovation strategy; does the company proactively seek innovation, or does it reactively wait for good ideas to come along?

EvH: I would ask the CEO how many hours they have personally spent on R&D. By that I mean actually going into the company's labs and really

deliver innovations. In my experience many CEOs are disappointed with the results they're getting.

This leads to questions about the governance system, and whether the company is focused on short-term shareholder value, or whether it is investing in R&D for the long-term.

organisation to support innovation and helps foster an innovation culture. And, if a company has clear processes in place for the management of ideas it expresses to the whole company that ideas are important – and that the involvement of employees in generating ideas is valued.

HV: Creating an innovation culture requires leveraging human capital and investing heavily in the capabilities of people. People should have “T capabilities”. These consist of a depth of knowledge, ie, specialist expertise, and breadth of knowledge, which comes from a broad understanding of management issues like innovation.

Of greatest importance is a tolerance for ambiguity. This requires people to be open-minded to new and crazy ideas. We should tolerate the radicals in the workplace.

AW: *How important are collaboration and co-creation to innovation?*

HV: Innovation can be very expensive, so it makes sense to co-create with customers, suppliers, knowledge institutes and even competitors. Our recent Erasmus Innovation Monitor findings show that when firms co-create with knowledge institutes such as universities and consultancies, their radical innovation is improved. This effect is the strongest for SMEs, but

unfortunately there are still Chinese walls between universities and these small firms.

EvH: Collaboration within the firm is also enabled by a factor that is sometimes undervalued: the physical layout of the building. Professor Thomas Allen at MIT developed the so-called Allen Curve, which basically says that R&D, innovation and collaboration will not happen if people are more than 50m away from each other physically. This is because communication can drop to zero as a result of employees not meeting each other. Buildings need to be designed so that people can interact with each other easily.

This is very interesting because in the age of digital communication companies are exploring new ways of working in which employees no longer need to be office-based. By contrast, our research at Erasmus@Work shows that getting a balance between face-to-face and digital interaction results in more creative ideas.

JvdE: Our research shows that collaborating with customers has a positive effect for functional innovations, meaning that customers can help in adding new functions to products. At the same time, collaborating with customers has a negative effect for design innovation ie, those innovations that connect to emotions and identity.

The clear message is that customers do not help developers of products or services in creating design-driven innovations. Instead, firms should develop these innovations themselves.

Regardless, companies should always be open to potential sources of ideas and that includes their customers. ■

Watch the *RSM Insight* debate in full at [WEB http://bit.ly/1hkLHP1](http://bit.ly/1hkLHP1)

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Why external R&D collaboration is not always good for business

by Luca Berchicci

For the past 15 years, companies have been told that they should open up their labs and learn to conduct research in more co-operative ways. Most authorities agree that collaboration helps bring in fresh perspectives, extends budgets further by enabling companies and institutions to pool their resources, and generally accelerates their pace of innovation. But does it really?

The reality is that there is surprisingly little evidence demonstrating what sort of research and development (R&D) configuration is more productive, and some R&D researchers have noted that searching for and co-ordinating new collaborations can be an expensive proposition in terms of time and money. Most investments suffer from diminishing returns at some point, and I wondered if the same thing might be true for open innovation.

To find out, I studied a data set that compared the performance of roughly 2,500 research-intensive Italian

improved products as a percentage of sales compared to the size of the R&D budget and the percentage of R&D devoted to external projects.

The relationship I found suggested that in this case the tech gurus aren't quite right. Open development with external resources doesn't always lead to more innovation. Instead, the magic works only up to a point. After that point, more collaboration isn't necessarily better, and in fact, a company may end up worse off than if it worked alone.

With a moderate level of external R&D firms are able to improve

“Open development with external resources doesn't always lead to more innovation. Instead, the magic works only up to a point.”

manufacturing firms drawn from a survey conducted in 2001 and again in 2004. I looked particularly at the relationship between sales of new and

innovative performance. However, firms carrying out more external than internal R&D activities actually see a decline in their innovative performance.

Diminishing returns

In my paper, *Towards an open R&D system: Internal R&D investment, external knowledge acquisition and innovative performance*, which was published in the 2013 issue of *Research Policy*, I argue that these diminishing returns occur for several reasons.

First, the more advanced the company's capability in a certain area, the less it stands to gain from co-operation. If you think about it, this makes sense: if you're an A student already, you're less likely to learn something from B students. You'll be helping them more than they'll be helping you.

Various authorities have also noted that setting up those external partnerships is not always easy. There is often a cost involved in finding people who are doing research that would be useful to the company, and there is a cost in setting up those partnerships. This can be especially true if your internal capacity for R&D is limited. With a weak stock of knowledge, the ability to recognise valuable linkages is less developed and consequently relatively more time is needed to select useful partners.

There also seem to be even more disadvantages for firms that have a lot of R&D capacity. Firms with more R&D capacity tend to be more sophisticated, and the more sophisticated the lab,



the more efficient it is at sizing up external partners and digesting external ideas. As a result, it doesn't need as many partners.

Too much external collaboration may also drag down firm performance because all that external focus reduces the level of contact between people working within the same firm. This may be a bit like a party: adding a few new faces may add some life; but invite too many people and you won't get a chance to talk to your old friends.

So, before you start looking for new research partners, I believe my results suggest that you should keep three things in mind:

1. Think about how good you are at what you do and find a subject area where you could benefit from someone else's insights.
2. Focus your research on only a few areas. The costs of finding the right research partners and setting up

partnerships can be high, but if you focus on a particular niche, those search costs go down. In R&D, a few real friends are much more valuable than lots of acquaintances.

3. If you don't know a lot about a subject, you should probably spend about 1/3 of your efforts on new partnerships. But if you already have some ideas, the optimal ratio turns out to be about 10 per cent less, ie, 23 per cent.

Of course, there are still many questions to be answered about this subject. How, for example, do firms structure their external R&D activities? How diverse are their R&D collaboration portfolios? Finally, how does R&D partnership diversity influence a focal firm's innovative performance? In fact, we still know so little about open innovation that my study's results suggest it makes sense for me to see if I can find a research partner. ■

This article is based on Luca Berchicci's paper *Towards an open R&D system: Internal R&D investment, external knowledge acquisition and innovative performance*, which was published in the journal *Research Policy*, Vol. 42, No 1 (2013), 117– 127. <http://dx.doi.org/10.1016/j.respol.2012.04.017>

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More information about the department and its work can be found at: [WEB www.rsm.nl/sme](http://www.rsm.nl/sme)

Why quiet reflection improves development performance

by Daan Stam, Arne de Vet, Harry Barkema and Carsten De Dreu

No-cost, easy-to-deploy ways for increasing development productivity have now been successfully tested in and out of the lab. R&D managers, meeting facilitators and anyone interested in idea generation, take note.

Unsurprisingly, innovative ideas and the quality concepts these ideas generate are crucial to successful new-product development (NPD). They are part of an innovation process in which ideas for new products are initially generated and subsequently evaluated and integrated into a concept. Now, considering that this is largely a team effort, and that many scientific studies demonstrate that creativity in teamwork is most often at a low level, it is vital – especially for business – to understand how teams can optimise idea generation in the whole NPD process.

Although past research in this area has developed various interventions to enhance the ability of teams to generate ideas and concepts, these are often costly and impractical. Furthermore, there is a lack of practical knowledge on deploying these interventions effectively, or how they influence the success of turning initial ideas into concepts. This brings into question the usefulness of these interventions for NPD teams, something that led us

to study alternate ways of improving the creative process. These in turn produced our theories on suspending group debate, which impact idea generation and concept development.

Taking a break

Suspending group debate simply means taking a break from group discussion so that members can individually (and silently) gather and process their thoughts, reflect on the problem at hand, and work towards its resolution. Debate is resumed at some point and these ideas are then discussed and eventually integrated collectively into concepts. According to our hypotheses, suspending group debate (and inviting individual reflection) causes teams to generate a higher number of ideas, a higher number of original ideas, and a more diverse set of ideas.

In addition, we developed a theory about where suspending group debate is especially effective: when at least one group member is low on extraversion. This is a personality

characteristic that explains why some individuals (with high extraversion) prefer working in a group, while others (with low extraversion) prefer working alone. Highly extraverted individuals are most probably excitable, socially active and good at multitasking. On the other hand, individuals low on extraversion are introspective, not very active socially, and have no multitasking skills. Considering many groups have a member that is low on extraversion, suspending group debate is a logical and wise action.

Put to the test

We tested our hypotheses using an experiment in which teams generated ideas and developed concepts for a specific organisational problem. Participants comprised 206 business and economics students (155 males, 51 females, born between 1978 and 1985) divided into 45 teams of four to five persons each. The experiment was part of a business-simulation course at a Dutch university. Teams were randomly selected to suspend group debate, or not.

Results show that suspending group debate causes groups to generate 53 per cent more ideas and 47 per cent more categories of ideas (the effects on the number of original ideas generated were much weaker). Importantly, the results demonstrate that for teams



with one or more members who are very low on extraversion, suspending group debate positively influences all three idea-generation measures: the number of ideas generated; the number of original ideas generated, and the diversity of ideas generated.

Furthermore, both the diversity of the idea set – as well as the number of original ideas – positively influence the innovativeness of the final concept, while only the diversity of the idea set influences the comprehensiveness of the final concept. In other words, suspending group debate really works, especially for groups with one or more group members low on extraversion.

seems a sensible strategy to mix individual brainstorming with group debate when developing new products. Importantly, although other strategies to improve NPD performance exist, suspending group debate for short periods of time is a highly practical technique because it is easy to do and has no costs attached.

Outside the lab, we applied suspending group debate in actual team discussions at several companies – not only at NPD meetings, but also in a wide variety of debates in which managers discussed solutions to a whole range of problems. We achieved good results. Participants

generation, which could also indirectly impact concept development. This is an area that needs further research, not least because these effects are crucial in understanding the factors behind successful NPD. ■

This article is based on the paper *Suspending Group Debate and Developing Concepts*, written by Daan Stam, Arne de Vet, Harry G. Barkema, and Carsten K. W. De Dreu, and published in *The Journal of Product Innovation Management*, Vol 30, Issue Supplement S1, 48-61. DOI: 10.1111/jpim.12063

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“Results show that suspending group debate causes groups to generate 53 per cent more ideas and 47 per cent more categories of ideas...”

Highly practical

Although we should be cautious about deducing practical recommendations from a single experimental study, current findings could provide NPD teams with valuable information and advice. Considering that suspending group debate may positively influence idea generation and subsequent concept development. It therefore

responded very positively to our new approach, which also produced quality brainstorming. Notably, this also illustrates that our findings can be largely applied to brainstorming in general, and not only to strictly R&D activity.

But there is still work to be done. Our study shows that suspending group debate has an effect beyond idea

Consumer responses to ethnic targeted marketing

by Anne-Sophie Lenoir and Stefano Puntoni

Marketing is impacted more than ever by demographic change, to the extent that practitioners targeting ethnic groups should re-think their approach depending upon the strength with which different generations identify with their cultural heritage.

Marketing, by definition, must always adapt to societal changes in order to ensure that the advertising pitch is suitable for the target audience. This can take various forms, from the cultural or linguistic context in which a campaign is set, or the identity of the spokesperson, through to the copywriting content. When a campaign is developed for a specific ethnic group the balance between success and failure becomes even finer due to the diversity of cultural identities identifiable within ethnic minorities.

Whilst research identifies that consumers of certain backgrounds are more likely to react positively to advertising when a campaign appeals to their sense of identity and cultural heritage, there has so far been little exploration into the different reactions within ethnic minorities. Our investigations reveal an important distinction, between first generation minorities who were born in another country and then re-located, and second generation minorities who were born in the country to which their parents re-located. The distinction lies

in their reaction to advertisements depending upon the identity of the spokesperson and the context in which the campaign is set.

Our research reveals that the cultural baggage of the second generation is more complex, being influenced both by the cultural heritage of their parents' country and the mainstream culture of the "host" country in which they have been raised. By contrast, first generation ethnic minorities retain a stronger bond with the cultural roots that they established before being re-located.

Cultural identity

As a result, the cultural identity of the second generation is more latent and needs to be activated in a different way from the more salient, pronounced identity of the first generation, which requires less influencing in advance of the main advertisement.

It is here where careful media planning (as well as the creation of culturally-sensitive content) becomes essential for effective targeted marketing.

Our investigations centred firstly upon consumers of Chinese heritage living in a major Dutch city, with an even representation of first generation and second generation cultural groups. The two groups were presented with two different advertising campaigns – both featured an advertisement delivered by a Chinese spokesperson for a telephone service provider.

However, one campaign included a preceding advertisement for the Hong Kong Tourism Board, which was strategically placed in order to activate the participants' Chinese cultural identity. The second campaign comprised more random, culturally unspecific advertisements with no ethnic connection to the main telephone service. The participants in this test were asked to score their attitude to and identification with the two campaigns in relation to the person delivering the message and the resultant level of trust and interest in the company advertising its services.

A second test focused upon Turkish heritage consumers, also living in a major Dutch city and again with a balance between first and second generation immigrants. They were questioned about a series of symbols of Dutch and Turkish culture, before then being asked to rate an advertisement for a charity, the organisation itself, and their desire to support it and the



spokesperson. The spokesperson varied from one with a Turkish name to one with a Dutch name.

We found that the first generation group reacted more positively to the advertisement featuring a same-heritage spokesperson and, as a

what they have to say and who will deliver the message. From a media planning perspective, they should give considerable thought to the timing of their campaign and the linguistic and cultural context in which they wish to set it.

“...marketers should resist the temptation to view ethnic minorities as a homogenous group from which they will elicit the same reaction...”

result, developed more positive attitudes towards the institution or company responsible for the advertisement, whereas the second generation group reacted in a similar manner to adverts featuring same-heritage and majority spokespersons.

Marketing implications

What, then, are the implications of this investigation for marketing professionals aiming to sell their product, service and/or institution to ethnic minorities? Based upon our findings, we strongly recommend that marketers consider the approach and content of their campaigns, depending upon the generational status of their target audience.

From a copywriting perspective, they should consider very carefully

Above all, marketers should resist the temptation to view ethnic minorities as a homogenous group from which they will elicit the same reaction, regardless of their cultural identity. Comprehension of and adaptation to the generational status of ethnic minority consumers and the strength and complexity of their cultural heritage are crucial to the process of successful marketing. ■

This article draws its inspiration from the paper *The impact of cultural symbols and spokesperson identity on attitudes and intentions*, by Anne-Sophie Lenoir, Stefano Puntoni, Americus Reed II and Peeter W.J. Verlegh (2013), and published in the *International Journal of Research in Marketing*, 30 (2013) 426-428. <http://dx.doi.org/10.1016/j.ijresmar.2013.07.001>

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Head to RSM Discovery to watch a video of Anne-Sophie Lenoir discussing the marketing implications of this research. [WEB http://bit.ly/1bl7q3K](http://bit.ly/1bl7q3K)

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Why business credit information sharing leads to better lending decisions

by Lars Norden

Bad loans are made in boom times. Good loans are made in recessionary times. Lenders such as suppliers who provide trade credit or banks would be well advised to remember this simple dictum whenever they are approached for credit by a borrower not entirely familiar to them.

It is crucial for lenders to assess the default risk of their borrowers accurately, especially in good times when low-quality borrowers might look like high-quality borrowers. A credit information sharing system helps lenders to do a better job in assessing borrower credit quality.

This is one of the key issues to emerge in discussions arising from a recent paper I co-wrote on the subject of credit information pooling, *Business credit information sharing and default risk of private firms*, which was published in the *Journal of Banking and Finance* in August 2013

It is an intriguing and often overlooked fact about credit markets. During the boom times, credit providers tend to become less strict, they weaken their screening and monitoring, and their credit decisions become more relaxed. Then when recession kicks

in, borrowers that looked good on paper unexpectedly go into default. The system we outline in our paper adds value by separating future good loans from future bad loans. This is particularly useful for small businesses during the boom period.

Pre-emptive action

We are talking about pre-emptive action to pool credit information on unlisted borrowers with the aim of avoiding future loan losses. The notion is given further depth by the experiences of recent years, when smaller companies have found credit more difficult to obtain, despite the near-zero-cost liquidity poured into many markets by central banks, including the US Federal Reserve, the European Central Bank and the Bank of England. Even Switzerland's central bank and the Bank of Japan

finally found themselves more or less forced into participating in what is often referred to as the greatest monetary experiment in history.

Credit information sharing works. The world's major credit agencies have demonstrated this for decades, gathering information about listed companies and sharing their opinion of creditworthiness. However, we never fully understood why.

We show that it works because the accuracy of default prediction is significantly improved. This results in a more efficient allocation of credit. If our recommendations are followed through, credit will flow to the better companies that can use it effectively in growing their business, and service it effortlessly. It will, meanwhile, be denied to weaker companies who would use it to buy time by supporting unprofitable activities.

I envisage the credit pooling of the future as complementary to existing information gathering and dissemination activity rather than a replacement for it. Its prime value will lie in the initiation of new lender-borrower relationships rather than in bolstering existing ones.

At an intellectual level, this will improve the quality of credit-making decisions. At a practical level, it will boost the profitability on both sides of the equation. Lenders will experience

“The system we outline in our paper adds value by separating future good loans from future bad loans.”



fewer defaults. Borrowers will enjoy lower-cost financing as the strong will no longer subsidise their weaker counterparts as lenders cease granting credit to firms that cannot repay it.

The value of sharing

In our study we provide a direct examination of whether and how business credit information sharing helps to better assess the default risk of private firms. The analysis is based on a representative panel dataset from the largest commercial credit bureau in Germany and includes firms from all major industries.

We obtain three main results. First, we find that business credit information sharing substantially improves the accuracy of aggregate and firm-specific default predictions. We interpret our result as novel, and direct evidence for the channel that explains why credit information sharing exerts a positive influence on credit availability, cost of credit and realised credit risk.

In other words, through this channel (ie, the improvement in default prediction accuracy associated with business credit information sharing) it is possible to achieve a better credit allocation in the economy.

While the effect is found in most industries, we also measure a substantial heterogeneity in the

value of business credit information across industries. This finding is also new since previous studies are either conducted at the country level or based on firms from single industries.

Second, we provide evidence on the factors that influence the magnitude of the value of business credit information sharing for private firms. The default prediction accuracy is improved for older firms and those with limited liability, and it depends on the sharing of firms' payment history and the number of firms covered by a local credit bureau office. The value of soft business credit information sharing is higher for smaller and less distant firms.

Third, we show that the higher the value of credit business information the lower the realised default rates. This result is confirmed in spatial and industry analyses and provides direct evidence that the improvement in default prediction accuracy due to credit information sharing serves as a channel that leads to a more efficient credit allocation.

We extend and complement the existing literature by providing new evidence on the channel through which business credit information sharing adds value and on the factors that influence its strength. Because private firms, especially SMEs, are of key importance for economic activity, employment and innovation in many

countries, we believe that our study may have broader implications about the impact of business credit information sharing. ■

This article is based on the paper *Business Credit Information Sharing and Default Risk of Private Firms*, written by Maik Dierkes, Carsten Erner, Thomas Langer, and Lars Norden and published in the *Journal of Banking and Finance*, 37, 2867-2878. <http://dx.doi.org/10.1016/j.jbankfin.2013.03.018>

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Procedural fairness and the power of giving voice to employees

by Niek Hoogervorst

A perennial question faced by managers is how much they should listen to their employees. Let no employee have a say and you encourage foot-dragging, hurt morale, and develop a reputation as an unfair manager. Listen too much and you may paralyse the organisation, still hurt morale, and earn a reputation as an ineffective leader.



As my research focuses mostly on questions of ethics and leadership, I thought a project that investigated how managers actually navigate this conundrum might be a good way to understand more about how employees and their managers communicate, and how organisations can build cultures that are both fair and effective.

I asked Marius van Dijke, an associate professor at RSM, and David De Cremer, a professor of

management at the China Europe International Business School (CEIBS) in China, to work with me on a study that would attempt to understand who managers grant a voice to when making important decisions.

Our study, published in the journal *Human Relations* in June 2013, looked specifically at how managers' perceptions of employee needs for control and need to belong affected the degree to which they paid attention

to their opinions. Our decision to focus on these two needs was fuelled by a robust research stream, which had shown that when managers involve employees in decision-making, employees experience a greater sense of control over outcomes and a deeper sense of being valued.

Need to belong?

In our first experiment, 98 aspiring managers from a Dutch university were told that they were being placed in one of a number of working groups. They were put alone in soundproof cubicles and told that they would be divided into groups of one leader (manager) and four employees. In reality, all were told that they had been chosen as leaders.

After we explained to them the tasks they would undertake (which would include prioritising emails and memos, distributing tasks, supervising employees, and making decisions), the subjects received short descriptions about members of their group.

Half of the participants read a description of a group member as 'someone who lies awake at night when important decisions have to be made... He is someone who needs to feel part of the decision-making process so that he can influence the outcomes (suggesting a high need for control of this group member).' The other half read a description of

a worker who had the opposite set of traits indicating a low need for control. Additionally, the participants read that this group member felt that being an included and valued member of the group was of great importance to him (suggesting a high need to belong), or conversely that he didn't care whether he was considered a valued member (suggesting a low need to belong).

We then asked our "leaders" in how many of ten decision-making procedures they wanted to give their employees a say. These procedures included decisions on the distribution of tasks, setting up evaluation criteria, and installing a punishment and reward system.

Giving voice

Our results revealed that our subjects chose to give the most voice to employees who had both a high need for control and a high need to belong. In other words, they intended to listen most to workers who cared not only about influencing self-relevant outcomes, but also about being part of the team.

To confirm whether actual managers would make the same choice, we surveyed a Dutch research panel that consisted of employees from a variety of organisations. A total of 93 pairs of bosses and employees responded. Each manager was asked

to characterise how they perceived the need for control and the need for belonging of a worker on their team. In turn, we asked these employees to rate how much say their manager gave them in important decisions.

We found that the results coincided with those of the simulation in our student experiment: managers said they tended to listen more to workers who had high control needs and a high need for belonging.

We have two possible explanations for this behaviour. One is that leaders make a strategic choice to listen to employees they believe have both a need for a high degree of control and a high need to belong. They may reason that employees who care only about

second explanation is that leaders are behaving instinctively and extend control as a reciprocal reward for the employee's loyalty or engagement.

As an interesting side note, given the low marks bosses generally get in popular culture, the leaders in our study seemed fairly sensitive in that they perceived their employees' traits in a way that was largely consistent with employees' self-rated traits. While the correlations weren't perfect, they were positive and significant.

Perceptions of fairness

Our conclusions build on the agreement scholars have had for some time about the importance of giving employees a voice tends to have in giving

“A perception of fairness usually makes employees feel more connected to the organisation and boosts their motivation and meaningfulness of their job.”

control want to have a say for self-interested reasons. However, when employees also care about being an inclusive member of the organisation, this signals to leaders that these employees can be trusted to use their say in the organisation's interest. The

employees a sense of procedural fairness. Nice guys may or may not finish last, but fair guys seem to do pretty well: bosses who don't trust their employees can easily find themselves caught in a downward spiral of mutual suspicion, while leaders who have a ▶

Procedural fairness and the power of giving voice to employees (continued)

by Niek Hoogervorst

sense of fairness and who show their employees that they are fair tend to be more effective.

A perception of fairness usually makes employees feel more connected to the organisation and boosts their motivation and meaningfulness of their job. This research clarifies when and why bosses actively seek their employees' counsel.

effective (including granting voice to employees), research on antecedents of these behaviours is still in its infant stages. Indeed, as clear as the results of our study were, they also raise some new questions.

For instance, are some leaders more empathic than others? Does more status reduce leaders' ability to empathise, causing them to focus less

show that most supervisors are aware of their employees' desire for fairness, but that they have no problem treating them fairly as long as they feel that their employees are committed to the company. ■

This article is based on the paper *When do leaders grant voice? How leaders' perceptions of followers' control and belongingness needs affect the enactment of fair procedures*, written by Niek Hoogervorst, David De Cremer and Marius van Dijke, and published in the journal *Human Relations*, July 2013: 66 (7); 973-992. doi:10.1177/0018726713482992.

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“Managers should understand the positive effects of granting employees voice.”

Important conclusions

Employees and managers may each draw important conclusions from this study:

- If you want your boss to consider your opinion, let him or her know that you want to have a say. But to get your boss to truly listen, make sure that you also demonstrate that you care about being a part of the company.
- Managers should understand the positive effects of granting employees voice. It increases employee satisfaction, improves compliance, and creates a more meaningful workplace for employees.

Ultimately, although we know a lot about which leadership behaviours are

on the needs of their employees and more on their own personal goals? How do leaders really feel about fairness? Do they listen to workers because they feel it's the right thing to do, or because it's the most expedient thing to do?

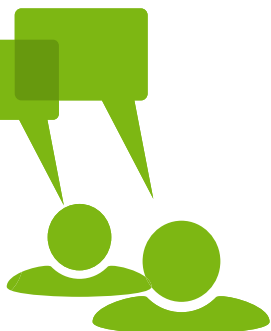
One way to test this might be to compare whether leaders are more likely to listen to what their employees have to say about unimportant decisions than important ones. If the employees only get to comment on the trivia, it would suggest that their bosses are listening more out of political savvy than real respect.

Former GE CEO Jack Welch once said about leadership: 'The hardest part is to be fair.' Our research suggests, however, that this may not be quite right. We believe the results

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