STUDY BRIEFS

EYES ON THE PRIZE

Two marketing professors advise companies to rethink their approaches to promotional sweepstakes and prizes. Mengze Shi of the University of Toronto's Rotman School of Management and Ajay Kalra of Rice University's Jones Graduate School of Management argue that companies should note carefully whether they are targeting current or potential customers and structure contests accordingly. To attract new customers, companies should design a contest with a variety of smaller prizes; to maintain an existing customer base, companies will be more successful if they offer a few grand prizes. The paper, "Consumer Value-Maximizing Sweepstakes & Contests," is forthcoming in the *Journal of Marketing Research.* Full text of the study is available at www.rotman.utoronto.ca/newthinking/sweepstakes.pdf.

UNDERSTANDING CHINA

James Sebenius and research associate Cheng (Jason) Qian of Harvard Business School are examining negotiations and business etiquette in China in two working papers. In "Cultural Notes on Chinese Negotiating Behavior," available online at www.hbs.edu/research/pdf/09-076.pdf, the writers outline the history, philosophy, cultural influences, and current practice of Chinese business behaviors. In "Etiquette and Process Puzzles of Negotiating Business in China: A Questionnaire," available at www.hbs.edu/research/pdf/09-077.pdf, they present 36 multiple-choice questions designed to evaluate test-takers' understanding of Chinese culture and negotiation practices. Sebenius and Qian will use the questionnaire to collect data from people with various levels of experience negotiating in China.

THE RULES OF OFFSHORING

Phanish Puranam and Kannan Srikanth of London Business School studied 130 business processes and found that the transfer of knowledge from onshore to offshore operations was not the key driver to successful offshoring. What does drive success, the authors found, is ongoing coordination between onshore and offshore sites. Businesses "tend to place disproportionate emphasis on incentives and not enough on coordination," says Puranam. Instead, businesses should rely on low-tech methods such as teaming up people from both sites who have worked together in the past and who understand both working environments well. The paper, "Coordination in Distributed Organizations," can be downloaded at ssrn.com/abstract_id=939786.

of California, Davis; Yi-Tsung Lee of National Chengchi University in Taipei, Taiwan; and Yu-Jane Liu of Peking University in Beijing. They focused on Taiwan, which has the world's twelfth largest financial market, because it gave them access to complete transaction data, underlying order data, and the identity of each trader.

They found that stock turnover in Taiwan during this period was two to three times the turnover in the U.S. The researchers suggest that Taiwanese investors may have been so bullish because they were overestimating their trading prowess or trading stocks as a form of entertainment.

The data show not only that individual investors suffered huge losses during this period, but also that institutional investors enjoyed gains. While individual investors saw a 3.8 percent annual decrease in their portfolios during the study period, the performance of financial institutions increased by 1.5 percent. Frequent trading, the authors say, resulted in a transfer of wealth from Taiwanese individual investors to foreign firms.

"Just How Much Do Individual Investors Lose by Trading?" appeared in the February issue of the *Review of Financial Studies.*

Star Power Doesn't Hurt

Companies with strong reputations or celebrity status benefit more when they report positive earnings surprises and are punished less for negative earnings surprises, say Michael Pfarrer, assistant professor at the University of Denver's Daniels College of Business in Colorado; Timothy Pollock, professor of management at Pennsylvania State University's Smeal College of Business in University Park; and Violina Rindova, associate professor of management at the University of Texas at Austin's McCombs School of Business.

The authors examined the performance of 291 public companies from 1991 to 2005. They matched 80 high-reputation firms listed among *Fortune* magazine's "most admired companies" and *The Wall Street Journal's* top 25 companies with other similar but low-reputation firms. They chose celebrity firms based on the number of emotionally positive articles written about them in *BusinessWeek*.

They noted Berkshire Hathaway, Toyota, and Xerox as examples of high-reputation companies; Amazon, Apple, eBay, and Starbucks were among those with celebrity status.

The researchers studied annual financial information and examined the biggest positive and negative earning surprises for these companies. They found that celebrity firms outperformed high-reputation firms by 1.02 percent in the three-day window around earnings announcements. In addition, high-reputation firms were 32 percent less likely to produce positive earnings surprises than celebrity or low-reputation firms.

Violina Rindova

Michael Pfarrer

Timothy Pollock

The reason, the authors say, is that investors are often excited by and emotionally connected to celebrity companies. Investors have enough good will toward these companies to stick with them through hard times.

The information in the study may prove important to stock analysts, whose jobs depend on forecasting market behavior, says Pfarrer. "Earnings surprises interfere with the expectations of the market," he says. When surprises do occur, he adds, "how the firm is perceived can affect how the market responds."

The study, "Does Noblesse Oblige? The Effects of Firm Reputation and Celebrity on Earnings Surprises and Investors' Reactions," was recognized in the Academy of Management's 2008 Best Paper proceedings.

Payday Loans Don't Bankrupt Consumers

Payday lending, often thought to be the road to financial ruin, may have gotten a bad rap. After studying the relationship between payday lending and bankruptcy filings from 1990 to 2006, two economists have found no correlation.

Michael Maloney of Clemson University's John E. Walker Department of Economics in South Carolina and Petru Stoianovici of The Brattle Group, an economic and financial consulting firm in Cambridge, Massachusetts, studied payday-lending legislation and the number of payday loan stores in a state. Then, they examined personal bankruptcy filings in subsequent years.

The two found that neither legislation nor a greater number of loan stores increased rates of consumer bankruptcies. In fact, they found that the presence of payday loan stores in a state actually led to a slight decrease in Chapter 7 bankruptcies—by one filing per one million persons.

These findings are consistent with other studies that have shown that access to high-interest-rate consumer credit actually correlates with improved household financial situations, say the authors.

Michael Maloney

Petru Stoianovici

"This study has important policy implications for legislators considering restrictions on consumer credit, including the interest-rate limitations put forth by President Obama in his economic stimulus proposal," says Maloney. "Despite their high cost, payday loans appear to increase the welfare of consumers by enabling them to survive unexpected expenses or interruptions in income."

"Restrictions on Credit: A Public Policy Analysis of Payday Lending" can be read online at ssrn.com/abstract=1291278.

Imitation—Better Than Innovation?

Businesses often credit a country's economic growth and technological progress to innovation—and the investment in research and development that comes with it. But imitation may be just as important to some countries' economic prosperity, say Maria Minniti, a professor at Southern Methodist University's Cox School of Business in Dallas, Texas, and Moren Lévesque, the Canada Research Chair in Innovation and Technical Entrepreneurship at the University of Waterloo in Ontario, Canada.

Minniti and Lévesque looked at two types of entrepreneurship: research-based, which emphasizes