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Table of Contents

A CALL TO DEFINE THE MORAL VARIABLE OF AUTHENTIC LEADERSHIP **1**
Jose Villarreal, Regent University

A DEMAND-BASED PERSPECTIVE ON SMALL FIRMS' COMPETITIVE STRATEGY **5**
Chuanyin Xie, The University of Tampa

KEY METRICS FOR MEASURING SUSTAINABILITY **7**
Sharon Seay, University of West Georgia

STRATEGIC THINKING: A NEGLECTED PERSPECTIVE **9**
Kathryn Jones, Tusculum College

THE ROLE OF REPUTATION AND SIGNALING IN HIGHLY FRAGMENTED INDUSTRIES **11**
Richard S. Brown, Pennsylvania State University Harrisburg

MERGERS AND ACQUISITION TARGETS: THE ROLE OF MORAL HAZARD AND EXECUTIVE COMPENSATION **19**
William A. Kline, Rider University
Richard S. Brown, Pennsylvania State University Harrisburg

STRATEGY AND LEADERSHIP OF A LUXURY BRAND IN THE POST LOGO ERA: GUCCI A CASE STUDY **25**
Catherine Levitt, California State University Los Angeles
Cynthia Schreihans, California State University San Bernardino

MOBILE PHONE MARKET IN MEXICO: STRATEGIES TO UNDERMINE THE MONOPOLY **27**
José G. Vargas-Hernández University of Guadalajara
José Raúl Nava Fonsec, University of Guadalajara

CAN SME'S EXPECT A RETURN ON CORPORATE SOCIAL RESPONSIBILITY INITIATIVE? **29**
Catherine Levitt, California State University Los Angeles
Cynthia Schreihans, California State University San Bernardino

DETERMINANTS OF INTERFIRM RIVALRY OR COOPERATION: IMPLICATIONS FOR MANAGEMENT **31**
William T. Jackson, USF St. Petersburg
Terry Nelson, University of Alaska, Anchorage
Lei Gao, University of Memphis
Jeffrey A. Krug, Loyola University, New Orleans
Peter Wright, University of Memphis

A CALL TO DEFINE THE MORAL VARIABLE OF AUTHENTIC LEADERSHIP

Jose Villarreal, Regent University

ABSTRACT

This paper proposes a call to better define the moral variable of authentic leadership theory and for the definition to be one that the general global population accepts as moral behavior from their authentic leaders. This proposal also suggests that the moral variable of authentic leadership should be studied as an inherent variable rather than a byproduct, as some sources have suggested. Avolio and Gardner (2005) described the moral variable as positive moral perspective in one of the nine components of authentic leadership. However, Avolio and Gardner (2005) also recognized the criticism that the moral component is referenced as a byproduct rather than an inherent component of the theory. May, Chan, Hodges, and Avolio (2003) propose that the moral component of authentic leadership be an inherent part of the theory in a diagram called "Developing The Moral Component of Authentic Leadership" (p. 250).

The May et al. (2003) model is very practical and depicts how moral development occurs in the organization. However, it fails to define what makes up a moral issue and what does not. The model does not elaborate about the moral variable and suggests the determination of a moral development is subjective to the leader's core moral values (moral capacity) and principles. These shortfalls point to the idea that the moral variable of authentic leadership needs further research and study in order to define its components. Another observational aspect of this model is that processes and steps overlap with some of the nine major variables outlined by Avolio and Gardner (2005). For example, the step of self-awareness and reflection of the May et al. (2003) model overlaps with Luthans and Avolio (2003) variables of self-awareness and self-regulation. However, it appears that May et al. (2003) viewed this step as a byproduct or underlining of the organization's overall moral development while Luthans and Avolio (2003) included it as a major inherent variable of authentic leadership. Luthans and Avolio (2003) also included a major variable for morals called positive moral perspective while May et al. (2003) depicted moral development as a specific dilemma causing process with a broad organizational reach. In other words, it can be argued that May et al. (2003) viewed the moral component as a byproduct while Luthans and Avolio (2003) viewed it as an inherent stand-alone variable of authentic leadership.

Ilies et al. (2005) took Luthans and Avolio (2003) and Avolio and Gardner (2005) and built their own authentic leadership model with four major components (Neider & Schriesheim, 2011). The model's components included self-awareness, unbiased processing, authentic behavior/acting and authentic relational orientation (Ilies et al., 2005; Neider & Schriesheim,

2011). Although this model did not specifically promote a strong moral variable, it did include underlying and overlapping moral aspects with the Avolio and Gardner (2005) and May et al. (2003) studies. For example, the self-awareness component can be compared to the self-awareness and reflection step of the authentic leadership development process from May et al. (2003). It can also be compared to one of the nine major components of Avolio and Gardner (2005) named leader self-awareness. It can also be argued that the Ilies et al (2005) model depicts moral values more as a byproduct than a core variable in their study.

Walumbwa, Avolio, Gardner, Wernsing, and Peterson (2008) attempted to address some of the issues with Ilies et al (2005), including to provide "appropriate psychometrically sound measures," by proposing a "four factor Authentic Leadership Questionnaire (ALQ)" (Neider & Schriesheim, 2011, p. 1147). This proposal includes the four major components self-awareness, relational transparency, balanced processing, and internalized moral perspective (Neider & Schriesheim, 2011; Peterson, Walumbwa, Avolio, & Hannah, 2012; Walumbwa et al., 2008). This self-awareness is not related to moral principles but to the leaders knowing their own strengths and weaknesses and other facets related to self (Neider & Schriesheim, 2011; Peterson et al., 2012; Walumbwa et al., 2008). Relational transparency is related to the leader presenting him or herself authentically and expression true thoughts (Neider & Schriesheim, 2011; Peterson et al., 2012; Walumbwa et al., 2008). Balanced processing referred to the leader's ability to objectively evaluate all information before making a decision (Neider & Schriesheim, 2011; Peterson et al., 2012). Internalized moral perspective referred to self-regulation and internalized values (Neider & Schriesheim, 2011; Peterson et al., 2012; Walumbwa et al., 2008).

The works of Luthans and Avolio (2003) raise awareness for the need for authentic leadership by suggesting "a need for a theory-driven model identifying the identifying the specific construct variables and relationships that can guide authentic leader development and suggest researchable propositions" (p. 244; Gardner et al., 2011, p. 1120). Building on this more current vision of the theory, this paper proposes examining the moral variable of authentic leadership from an inherent and major variable perspective. This approach and perspective is supported heavily by the works of Walumbwa et al. (2008) and Luthans and Avolio (2003), which view the moral variable as a stand-alone important variable of authentic leadership. Furthermore, this proposal suggests that the authentic leadership moral variable be examined with moral values with global-wide acceptance across cultural, religious and international lines. The purpose of this approach is to globally impact leadership on a global scale.

Measuring the moral variable can be accomplished through the use of the framework of Walumbwa et al. (2008) and applying it to the moral variable called "positive moral perspective" from the nine variables outlined by Avolio and Gardner (2005, p. 322). Walumbwa et al., (2008) successfully attempted to develop a "multi-dimensional theory-based questionnaire of authentic leadership (the Authentic Leadership Questionnaire [ALQ]) tied to the latest conceptualizations of authentic leadership and to provide preliminary evidence for its construct validity" (Walumbwa et al., 2008, p. 90). This proposal will use a similar concept but the purpose is to

develop an authentic leadership questionnaire (ALQ) that will measure moral principles, in a global setting and attempt to validate those moral principles, and tie them to authentic leadership theory. In essences, it will try answer which moral principles individuals approve of within the authentic leadership framework. Walumbwa et al. (2008) accomplished step one by "defining the construct of authentic leadership and provide an overview of the relevant theory" (p. 90).

Neider and Schriesheim (2011) suggested that the Walumbwa et al. (2008) study was successful in beginning the study of a new construct within the theory. However, the criticism was that "construct validation is a fluid, creative process….no interpretation can be considered the final word" (Neider & Schriesheim, 2011, p. 1147). In other words, a closer look was suggested for the derived ALQ despite positive results (Neider & Schriesheim, 2011). This suggests that similar results may be probable for this proposal. However, it can be argued that creating an ALQ for moral principles may a simpler process. Another potential issue with the framework of the proposed study is the need for continuous empirical study across different industries and other countries. This may open the new approach to different types of approaches and studies throughout the globe.

A DEMAND-BASED PERSPECTIVE ON SMALL FIRMS' COMPETITIVE STRATEGY

Chuanyin Xie, The University of Tampa

ABSTRACT

How do small firms compete in the marketplace? Prior research has largely employed a supply-side approach. Small firms have insufficient financial resources and limited managerial capacity (Mascarenhas, 1989). They suffer from a "liability of smallness" (Aldrich & Auster, 1986). As a result, they should pursue niche strategies, instead of confronting their large rivals (e.g., Kao, 1981). Though this argument is appealing, not all scholars agree. For example, Cooper and colleagues (1986) contended that small firms can compete directly against the market leaders. Large competitors are subject to structural inertia (Hannan & Freeman, 1984). They can be "locked into" existing products, prices, and cost positions (Cooper et al, 1986). In contrast, small firms are agile and flexible, so they can challenge large competitors in a speedy and secretive way (Chen & Hambrick, 1995).

This study attempts to resolve the conflicting arguments about small firms' competitive strategy by employing a demand-based perspective. According to Adner and Zemsky (2006: 215), research on competitive strategy tends to focus on "firms' supply-side interactions and largely neglect the demand environment in which these interactions take place." To be competitive, firms need to create value for consumers. Consumers are often different. Consumer heterogeneity can have important impact on competitive dynamics. In this study, I investigate how the demand environment affects small firms' competitive strategy. I argue that small firms may or may not challenge large competitors, depending on demand characteristics as well as their own situations. The demand-based approach provides a new direction for small firms to take advantage of their strengths and avoid their weaknesses.

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KEY METRICS FOR MEASURING SUSTAINABILITY

Sharon Seay, University of West Georgia

ABSTRACT

This paper compares and contrasts the four frameworks currently available for sustainability reporting and examines the metrics employed under each framework. A sample company's sustainable performance is measured and compared using all 4 frameworks. This paper has significant implications for sustainability reporting and firm value creation.

STRATEGIC THINKING: A NEGLECTED PERSPECTIVE

Kathryn Jones, Tusculum College

ABSTRACT

Strategic thinking as a cognitive skill has been neglected in decades of strategic management and planning literature. In most cases when thinking strategically is addressed, the phrase is treated as synonymous with the widely accepted strategic planning framework. This paper argues that the current treatment regarding strategic thinking as planning alone is insufficient. The planning approach specifies what planners need to think about, but not how. How strategic planners cognitively process information related to the components of any strategic plan will impact the plan's quality and ultimate effectiveness.

The purpose of this paper is to spur interest, discussion and research concerning strategic thinking as a cognitive skill. A strategic thinking framework is proposed applying the eight cognitive functions identified by Carl Jung. Implications related to executive team planning dynamics and executive development are highlighted. The relevance and value of improving our understanding and development of strategic thinking as a cognitive capability at individual, team and organizational levels are presented. Recommendations for research are offered.

THE ROLE OF REPUTATION AND SIGNALING IN HIGHLY FRAGMENTED INDUSTRIES

Richard S. Brown, Pennsylvania State University Harrisburg

ABSTRACT

In this paper, I empirically test the reputation-performance relationship and the signaling-performance relationship. Integrating the reputation literature and signaling theory with industrial organization, I ask if there are positive performance effects to both (i) having a high reputation and (ii) signaling a high reputation in industries that are fragmented. Using a sample of eBay transactions, I find mixed results for the impact of reputation on performance but positive results for signaling reputation on performance.

BACKGROUND

The reputation of a new firm is incredibly important in order to overcome what Stichcombe has labeled the "liability of newness (Stinchcombe 1965)." While this may seem obvious, the mechanisms by which entrepreneurs inform other market participants about their reputational value are not so obvious. While new ventures must sometimes garner legitimacy prior to worrying about reputation, it is important to study ways that entrepreneurs project an abstract value (i.e. reputation) when they are incredibly young. However, newness is not the only hurdle in selling the idea of one's reputational score in the marketplace. Because new ventures tend to coalesce in industries which by their nature are highly fragmented (Porter 1980), information problems exist by and between market participants in attempting to send and receive information while minimizing noise.

This paper will empirically study the mechanisms by which small and new firms in highly fragmented space disperse information concerning their value. The contribution of this paper is in empirically studying the value of reputation as well as signals of reputation in markets and industries that are highly fragmented. While other published works study the effect that reputation has on performance measures, there has been little work that theoretically attempts to explain in what types of market conditions this may or may not be more effective. The paper proceeds as follows. Section II puts forth current theory on reputation and signaling as well as proposing specific hypotheses. Section III addresses the data and methods used. Section IV contains the results of the empirical study. Finally, Section V is a discussion that incorporates the results with both current theory and potential future directions.

LITERATURE AND HYPOTHESES

Reputation and Signaling in Fragmented Markets

The literature on reputation is found in multiple disciplines including entrepreneurship, management, marketing, finance and economics. In the management literature, reputation has been viewed as a strategic intangible resource that allows firms to capture incremental rents over rivals (Weigelt and Camerer 1998; Roberts and Dowling 2002). In a study of manufacturing firms, Herremans, Akathaporn and McInnes (1993) found that firms with a reputation for social responsibility outperformed competitors. Carmelli and Tishler (2004) found a relationship between perceived organizational reputation and a series of performance variables in a sample of Israeli government authorities. Choi and Wang (2009) likewise found evidence that reputational effects, observed through positive stakeholder relations, aids firms in recovering from inferior performance. While a full literature review of the reputation-performance link is beyond the scope of this paper, the vast majority of empirical papers in management find a positive relationship between the two measures (Bauer 2010).

In the economics literature, reputation has been both theoretically modelled and empirically tested (Kreps and Wilson 1982). Klein and Leffler (1981) introduce a model of unobservable quality whereby sellers decide between selling goods that are either low or high quality but which are both sold at premium prices. They find that the gains from producing a high quality good, which equates to a high reputation, are greater than the one-shot gains from producing low-quality goods and pricing them at premium, which would equate to a bad reputation. Shapiro (1983) set forth an equilibrium model by which sellers, in order to compensate for unknown product-quality, add a premium to high quality items in order to signal the reputation of the firm earned through previous periods. Following on these two works, Allen (1984) argued that firms produce goods of a certain quality with the expectation that consumers will be able to discern the cost functions of firms with high-quality and, subsequently, will not purchase from these firms if they decided to cut costs and enter the low-end of the market.

Titman (1984) and Maksimovic and Titman (1991) posit models by which a firm's capital structure is a signal of its quality. Other actors may be apprehensive to transact with the focal firm due to high debt loads because this debt may signal an inability to offer high-quality products. This can be due to the increased probability and costs of a future bankruptcy (Titman 1984) or to the inability of a firm to honor its future contract obligations regardless of its bankruptcy propensity (Maksimovic and Titman 1991). In a seminal work, Fombrun and Shanley (1990) find empirical evidence that firms send different signals to different agents with respect to corporate reputation. These include market, accounting, institutional and strategy signals to convey performance, conformity and strategic posture.

The crucial aspect of many of the works in economics is the inclusion of asymmetric information where buyers are unaware of the true reputation of the seller. In order to reduce this

information problem, sellers must signal their quality, which is unobservable. Spence's (1973) model of signaling has become the most cited in information economics, yet Akerlof's (1970) paper on the market for lemons predates Spence. In Akerlof's (1970) model, buyers of used cars are at an information disadvantage in that they cannot discern the true quality of a used automobile. Therefore, in an attempt to mitigate their risk, buyers are unwilling to pay more than the average price of a car in the marketplace, thereby driving out certain sellers. As the market iteratively shrinks, good sellers (i.e. those with high prices) are driven out and eventually the market fails. As Akerlof (1970) pointed out, one mechanism to signal quality and, therefore, to salvage markets is a warranty.

Warranties may signal quality if they are effectively informative. The informativeness of a signal (Holmstrom 1979) means that there must be a cost to send a signal if that signal is to be a true proxy for quality. For example, in Akerlof's used car market, a signal is only informative if high quality sellers can send it due to the fact that it would be cost prohibitive for low quality sellers to do so. But what about signals in industries that are highly fragmented? Industries such as this are characterized by having a large number of small market sellers all of which are generally unknown (Caves and Porter 1977; Porter 1980; Dess 1987; Wright, Ferris, Vaughan and Jackson 2004; Brown 2011). As such, these sellers have an asymmetrical information problem with respect to their reputation since buyers will be unaware of crucial seller characteristics. In order to overcome this issue, sellers in fragmented markets may use warranties to reduce the asymmetry and to induce buyers to patronize them in lieu of some other unknown seller. While evidence of reputational quality is predicted to be positively related to a seller's price, the signaling of such quality should also have the same effect in direction, if not in magnitude. Therefore, I posit the following hypotheses:

Hypothesis 1: A seller's price is positively associated to the seller's reputation.
Hypotheses 2: The interaction of multiple reputation measures will be positively related to sales price.
Hypothesis 3: A seller's price will increase in the presence of a signal of high reputation (i.e. a warranty)

METHODOLOGY

Sample

The sample for this study was taken from sales data on the website eBay (www.ebay.com). Data was derived from transactions on eBay because of the website's low entry barriers, which is a major characteristic of highly fragmented industries. Gathering information concerning fragmented industries from typical data sources such as Compustat is difficult. The reason for this difficulty is that information on Compustat comes from publicly traded firms. In fragmented industries, typically only a small percentage of firms are publicly traded, with the vast majority being privately traded and, therefore, difficult to get data from. As

an example, taking the SIC code 1531 (Operative Home Builders) in 2012, there are over 35,000 firms with aggregate industry revenue of over $170 Billion. Of the 35,000 firms, only 13 were publicly traded; additionally, the 13 firms together only accounted for approximately 20 percent of the industries revenues. Therefore, in industries such as this where there is high fragmentation, studying only those firms that are publicly traded may not represent the actual behaviors and results for the typical firm in this setting.

Data Collection

The data for this study was collected manually from eBay and covers the time frame of November 1, 2009 to November 30, 2009. The listings were searched by keywords "Blackberry Curve New" and only items which were new and never opened were included in the sample. Next, I manually extracted only listings for Blackberry Curve 8300 models. The final sample consisted of 75 observations which were listed and sold in the month. It was important to have a sample from the same general time period because electronic items, such as smart phones, tend to depreciate as newer models are introduced. The inclusion of only new items is an attempt to control for product quality which is important in isolating a seller's quality. There have been other studies that use eBay samples including Standifird (2001), Melnick and Alm (2002 and 2005), Javalgi, Cutler and Todd (2004), Houser and Wooders (2006) and Resnick, Zeckhauser, Swanson and Lockwood (2006).

Estimation

An ordinary least squares (OLS) regression was utilized with the following specification:

$$\boldsymbol{Y} = \propto\ + \boldsymbol{\beta}'\boldsymbol{X} + \boldsymbol{W}'\boldsymbol{Z} + \ \boldsymbol{\epsilon}$$

where the dependent variable is the sale price of the unit and $\boldsymbol{\beta}'\boldsymbol{X}$ are vectors of parameter estimates and explanatory variables and $\boldsymbol{W}'\boldsymbol{Z}$ are vectors of parameter estimates and control variables.

Variables

Dependent Variable.

The Dependent variable is **Price**. The price was recorded for each sale as the net proceeds received by the buyer less commissions and fees. Therefore, the closing price plus the shipping charge were included in price. This calculation was employed because offering "Free Shipping" can have the effect of a buyer's willingness to pay which, in effect, negates the free shipping that they would receive. Additionally, the seller still must carry the shipping burden even if the product is sold with free shipping.

Explanatory Variables: Reputation

I operationalized reputation in two distinct ways. The first is the feedback percentage that the seller had on the date of the recorded purchase. The second way that reputation was measured was through the experience of the seller. Experience is an important measure that buyers take into account because if a seller has been actively selling for a lengthy period of time, then buyers have more assurance about the seller's volatility. However, there are two ways to measure experience: calendar time and transaction time. Specifically, I measured these items as follows:

Seller Feedback Percentage (Feedback)—Percentage of total feedbacks that result in a positive appraisal of the seller. It is calculated as Feedback = Positive/(Positive + Negative). This variable was input as the whole number of the feedback and not in decimal form.
Experience (Months)—Number of months that the seller had an account on eBay until the data collection period of November 2009.
Transaction Experience (Transactions)--Natural log of the number of transactions which measures how many total feedbacks were given by buyers. The log form was used because of the large variation in the range of values for this variable.

Explanatory Variable: Signaling

As hypothesized, sellers may signal their quality through offering a warranty. On eBay, sellers have the ability to opt into giving buyers a warranty that allows the buyer to return the merchandise for a specified period of time for a refund. Theory predicts that sellers that offer warranties reduce the asymmetrical information that the buyer has with respect to the seller's quality or reputation. Therefore, prices for sellers that offer warranties should be higher than those sellers who do not. Specifically, I measure this as follows:

Refund (Warranty)—Dummy variable which equals 1 if a refund was offered and 0 if a refund was not offered. The refund option on eBay serves as a seller warranty in case the buyer is not satisfied with the transaction.

Control Variables. Control variables used were 1) day of the week and 2) time of day to control for the potential for variability in pricing as a result of heavy or weak demand during certain times noted by other authors who studied eBay transactions (Melnick and Alm 2002; Houser and Wooders 2006). A third control variable, labeled "Model" controlled for different models of Blackberries in the sample. Additionally, I controlled for product quality during sampling by only measuring new in box items.

RESULTS (TABLES AVAILABLE IN FULL VERSION)

Table 2 includes the results of the regression analysis in SPSS. Model 1 is the control only model and is not significant with an F-Value of 0.929. Models 2 through 4 add in the explanatory variables and interactions. Hypothesis 1 predicted that as a firm's reputation increased, so would the price of its product. I measured reputation in three ways: (i) Feedback Rating, (ii) Calendar Time in Business, and (iii) Transaction Time in Business. There is limited support for Hypothesis 1 as the coefficients for these three reputational proxies have contradictory signs. The Feedback variable is statistically significant in Model 2 and 4 but the sign of the coefficient is opposite of that predicted. Transaction time is statistically significant in all models but, once again, the sign is opposite of that predicted. The results, therefore, show evidence that as a seller's feedback rating or number of transactions increase, its sales price actually decreases. However, if reputation is measured in calendar time in business, two of the models do find evidence for an increase in sales price.

Hypothesis 2 predicted that the interaction of multiple reputation measures would increase sale price. As can be seen in Table 2, Model 3, the coefficient on the interaction of Calendar Time (Months) and Feedback Rating is positive and significant, providing evidence for Hypothesis 2. However, the coefficient of Calendar Time (Months) and Transactions is insignificant. Therefore, there is mixed support for Hypothesis 2.

The most striking results pertain to Hypothesis 3, which predicted that the signal of quality (refund/warranty) would be positively related to sale price. This hypothesis had overwhelming support in Models 2 through 4 as the coefficient was both positive and significant. Since the variable Refund was a binary, the interpretation of this coefficient is that if a seller offers buyers the signal of quality, the average price of an individual unit increases $24.17 to $31.85, depending on the model. These increases are after I controlled for other reputational factors, such as seller feedback and experience. Therefore, Hypothesis 3 is supported.

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MERGERS AND ACQUISITION TARGETS: THE ROLE OF MORAL HAZARD AND EXECUTIVE COMPENSATION

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INTRODUCTION

Incentive structures have been a prevalent topic in the Management literature over the past decades as researchers have attempted to predict managerial discretion and outcomes as a function of compensation design. Most of this work has sat atop an agency platform (Jensen and Meckling 1976; Fama and Jensen 1983a, 1983b; Eisenhardt 1989) with scholars arguing that incentive mechanisms induce agents to reach for goals that converge to, or at least approximate, those of the firm's shareholders. Considering that agents (i.e. managers) tend toward risk-aversion as a result of their wealth being tied to the health of the organization (Wiseman *et al.*, 1998), agency research predicts that fixed compensation will produce risk-averse managerial behavior while variable compensation will produce the opposite.

The root cause of this behavioral variance lies in the moral hazard issue (Holmstrom 1979). Moral hazard is a problem related to an interparty information asymmetry whereby one party to a transaction has crucial private information (agent) that the other side (principal) needs in order to contract optimally. In the case of top management teams, managers possess private information on two dimensions. First, managers have more knowledge concerning the day-to-day operations of the firm. In a sense, managers are on the front line of commerce and have a more acute feel for the firm's actual financial position, future potential growth, company morale and the like. Secondly, managers have private information concerning their effort exertion (i.e. effort policy) individually. Moral hazard exists when an agent's effort is not observable and, therefore, the agent needs external inducements in order to catalyze additional marginal effort with respect to some firm goal (Lazear 2005).

While Agency Theory applied to mergers and acquisitions is not an entirely new line of research (Jensen 1986; Shleifer and Vishny 1991), this paper will attempt to answer the following research question, which has not, to date, been adequately addressed. Does the form of executive pay lead to the acquisition of firms with a specific set of attributes? In other words, does salary lead to the acquisition of less risky firms (i.e., larger, established firms)? Does option-based pay lead to the acquisition of riskier firms (i.e., smaller, start-up type firms)? These research questions for the basis of this work. The next section (Section II) will address the

theory and hypotheses involved. Section III will discuss the data and methods and Section IV will include the results and a discussion.

THEORY AND HYPOTHESES

Agency Theory

Agency Theory (Berle and Means 1932; Jensen and Meckling 1976) asserts that agents who bear the risk within some contractual relationship must be externally induced to exert the needed effort to complete some stated task. Furthermore, if the task that is delegated from the principal to the agent is not highly programmable, then the agent's risk lies in the fact that his or her effort may not be a significant determinant of the desired outcome. In the case of high-level managers, the goals of the corporation are typically noisy and, therefore, subject to causal ambiguity. In this case, giving managers a fixed salary may lead to high risk-aversion resulting from the fear of the manager losing his or her wealth, which is tied to the firm. Since the shareholders (principals) cannot observe the true effort of the manager (agent), the moral hazard issue results in the need for a planned mechanism to induce extra effort.

Two standard approaches for this problem are proposed in the agency literature—monitoring and incentives. While monitoring may suffice when task programmability is low (Eisenhardt 1989), the case of top managers seldom falls into this definition. Incentives, therefore, are the mainstay in attempting to solve the issue of moral hazard. The logic is that incentives, especially variable incentives, align the preferences of shareholders and the manager. This alignment means that both parties should want to make financially optimal decisions for the firm; however, it is important to understand that the manager is still making self-interested decisions.

In terms of international mergers and acquisitions (M&A), acquiring firms face choices as to the riskiness of target firms. Since larger firms are more stable and likely more established, managers will be able to make more predictable assumptions about the activities and outcomes of these firms. Conversely, when target firms are small and young, there is a considerable amount of uncertainty about firm performance and survival. Therefore, Agency Theory predicts that without incentives (i.e. only salary and bonus pay), managers will remain risk averse and will select firms that have less risky attributes (i.e., older, larger acquisition targets). However, if given option-based compensation, managers will be incentivized to target firms with riskier attributes (i.e., smaller, younger acquisition targets).

Hypotheses (Hypothesis Development available in full paper version)
Hypothesis 1A - TMT salary will be positively associated with the size of the target firm.
Hypothesis 1B - TMT bonus will be positively associated with the size of the target firm.

Hypothesis 1C - TMT option-based compensation will be negatively associated with the size of the target firm.
Hypothesis 2A - TMT salary will be positively associated with the age of the target firm.
Hypothesis 2B - TMT bonus will be positively associated with the age of the target firm.
Hypothesis 2C - TMT option-based compensation will be negatively associated with the age of the target firm.

DATA AND METHODOLOGY

We relied upon transaction data from Capital IQ (a division of Standard & Poor's) transactions database. We narrowed our initial sample of completed transactions by eliminating observations where the key focal acquirer or target variables in this study were unavailable. Financial and executive compensation data were drawn from the Compustat and Execucomp databases, respectively. Our sample consists of, depending on the model, between 181 and 275 transactions over the seventeen-year period from 1994 through 2010.

VARIABLE DEFINITIONS

Dependent Variable

Dependent variables were ***target firm size*** measured as the log of target revenue and ***target firm age*** measured as the log of the number of years since the firm was founded.

Independent Variables

Consistent with prior literature, we relied upon ***salary, bonus, and option value*** data for TMTs from the Execucomp database. Salary and bonuses were measured in dollars in the year prior to the transaction, while the Black and Scholes option pricing model (Black and Scholes 1973) was utilized to estimate option values.

Control variables

We utilized ***Two digit SIC codes*** to control for differences across industries captured by the sample (Burns and Kedia 2008). Since we pooled data over a seventeen-year period, we controlled for ***Time Period*** by creating dummy variables for each year, using 1994 as the reference year. We included the ***Gompers Governance Index*** since researchers have found that corporate governance influences firm performance and earnings management (Gompers, Ishii et al. 2003; Cornett, Marcus et al. 2008).

We also controlled for some of the more established entry mode antecedents from the extant literature to isolate the incremental impact of pay mix of TMTs. More specifically, we controlled for ***asset specificity*** (Williamson 1985), which we have measured as R&D as a percentage of sales (R&D/sales) in the year prior to each transaction. Following Chari and Chang (2009) and others (Chari, Devaraj et al. 2007), we replaced missing R&D data with zero values. ***Acquisition experience***, which is often used as a measure of internal uncertainty (Zhao, Luo et al. 2004), was measured as the number of acquisitions over the 3 years prior to the date of the transaction. Finally, we added controls for external uncertainty, which included variables for ***target market potential*** and ***country risk***. We have measured target market potential as three-year average GDP per capita during the three-year period prior to the transaction (Chari and Chang, 2009). We relied upon total country risk and risk premium estimates to measure country risk.

Methodologically, we used a linear hierarchical regression in STATA with the following model and specification:

$$\boldsymbol{Y = \beta' X + \varphi' W + \varepsilon} \qquad \textbf{(1)}$$

Where Y is the natural log of the target firm's revenues, $\boldsymbol{\beta' X}$ is a vector of regression coefficients and explanatory variables, $\boldsymbol{\varphi' W}$ is a vector of regression coefficients and control variables and $\boldsymbol{\varepsilon}$ is the residual term which is assumed to be distributed normally with mean zero and variance 1 (i.e. N(0,1)).

RESULTS AND DISCUSSION (TABLES AVAILABLE IN THE FULL PAPER VERSION)

Table 2 reports the results from the hierarchical regression from STATA with the Dependent Variable as Seller or Target Size (measured by revenues). Model 1 is the control-only model resulting in an R-squared value of 0.306. Models 2, 3 and 4 include one explanatory variable separately in addition to the control variables. Model 2 includes managerial salary and, as predicted in Hypothesis 1A, is both significant and positive adding support to the notion that, when compensated with a fixed component, managers make less risky decisions. Model 3 also includes a fixed compensation component—Bonus—which is also positive and significant lending support to Hypothesis 1B. Model 4 includes a variable compensation component, namely option value. Hypothesis 1C predicts a negative coefficient, which would have the opposite logic as Hypotheses 1A and 1B. In the case of option values, theory would predict that as options increase, managers would tend toward riskier decision-making. In our model, this is interpreted as tending toward smaller firms. However, while the coefficient is significant, it has the opposite sign as that predicted.

Other important findings include an increase in R-squared above that of the control-only model in Models 2, 3, and 4 with Model 2 (Salary) having the largest marginal effect. Model 5 includes all of the explanatory variables simultaneously. While this model has more predictive power, the inclusion of all variables leads the option value coefficient to be not significantly different than zero. Finally, regressions for Hypotheses 2A, 2B, and 2C were calculated in STATA. In this set of regressions, the dependent variable was the age of the target firm in lieu of the size of the target firm. All of the independent variables (Salary, Bonus and Options) were not significant and, due to the space constraints of this submission, these results are not included here. However, we can conclude that there is no empirical support for any of the hypotheses (2A, 2B, or 2C).

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STRATEGY AND LEADERSHIP OF A LUXURY BRAND IN THE POST LOGO ERA: GUCCI A CASE STUDY

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Abstract

This case study seeks to examine the strategy and leadership of a luxury brand in the post logo era. Gucci's took a U turn from its once flashy brand image with an aim to target a clientele with established wealth and in 2012, produced a profit of $1.26 billion or a 17.7% rise over the previous year.

The changes include moving the product line from fabric based goods to leather goods and shoes. In 2006, 85% of revenue came from fabric goods while today 72% of revenue is produced from leather products.

The rebalancing of Gucci, took advantage of the synergies that result from participation in the Kering conglomerate, but, grow directly from a unique partnership between Frida Giannini the Creative Director and Patrizio di Marco the CEO and their relationship with Francois-Henri Pinault the Chairman of Kering (formerly PPR).

Against a backdrop of failing economies, flight of manufacturing to lower cost locations, and a world of fickle fashion trends, Gucci has developed a strategy based on historic Italian competencies that begin will a definition of luxury in the sense of highest artisanal quality, social reach and honoring the social responsibilities to family, community and world.

MOBILE PHONE MARKET IN MEXICO: STRATEGIES TO UNDERMINE THE MONOPOLY

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ABSTRACT

Being considered as one of the most dynamic markets in Mexico, the mobile phone market becomes a really interesting market to analyze. The objective of this work is to find the factors that allowed the creation of a monopolistic competence market, being Telcel the leader in such monopoly, as well as the strategies that have been the power of the latest. I suggest a game, based on both economic and business theory, who may predict the outcomes of such strategies. It is concluded that Telcel´s rival firms now have with them both resources and capabilities to lower even more this monopoly.

Keywords: *Differentiation, strategies, institutions, monopoly, technology*
JEL: C70, D02, D42, L12, l86.

CAN SME'S EXPECT A RETURN ON CORPORATE SOCIAL RESPONSIBILITY INITIATIVE?

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ABSTRACT

Increasingly, SME's are taking the approach that Corporate Social Responsibility is a core competency used to build competitive advantage. Yet the methods used to examine the impact on market share and profitability tend to be narrative rather than empirical.

This paper seeks to present an examination of the validity of these methods for determining Return on CSR and the implication that this holds for small and medium sized enterprises. Adam Smith's description of the purpose of the firm holds that the success of the firm is determined by the ability of the firm to increase shareholder wealth by maximizing current profit and optimizing future profit potential. The dimensions by which success are measured are growth and profitability. The theory of corporate societal strategy suggests that maximization of current profit and optimization of future profit potential are dependent on the ability of the enterprise to balance power and to develop legitimacy by satisfying stakeholder aspirations and expectations (Ansoff, 1979; 1985). While Corporate Social Responsibility has been seen as an increasingly visible part of corporate strategy the lack of clear linkage between CSR and Profitability and/or CSR and Market Value, has led many firms to consider CSR as a "nice if you can afford it but not critical" element in corporate culture, a marketing tool or a method of creating employee involvement. (Ahmed, Nanda, Schnusenberg, 2010) Economic down swings over the past 15 years have seen the contraction of spending by corporations on CSR elements followed by an uptick in the emphasis on these same CSR when the economy recovers.(Luo, Bhattachrya, 2006) Raymond Kao (1985) suggests that, in as much as "a corporation is a community of entrepreneurs created for the purpose of creating personal wealth and adding value for society", part of the mandate of corporate strategy is the linking of the corporation to the environment through the establishment of understandable, stakeholder expectations. Corporate reputation is built on the public recognition of the ability of the firm to live up to this expanded purpose. The quality and innovativeness of the products and services sustain the corporation's reputation. (Luo, 2010).

DETERMINANTS OF INTERFIRM RIVALRY OR COOPERATION: IMPLICATIONS FOR MANAGEMENT

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ABSTRACT

Much has been written in the past few years regarding interfirm rivalry. Much of this research has focused on the consequences of collaboration (Tong and Reuer, 2010, Snowdon and Stonehouse, 2006), trust (Gulati, 1995), competitor analysis (Chen, 1996, Baum and Korn, 1996, Gundez, 2013), alliances and alliances failures (Park and Ungson, 2001, Trapido, 2013); industry structure (Tong and Reuer, 2010); opportunities (Chellappa and Saraf, 2010; Ahuja, 2000); and transaction cost (Dyer, 1997, Parkhe, 1993). Unfortunately, little emphasis has been given to the impact of managerial logic and the economic environment.

In this paper we broadly focus on managerial logic as well as the economic environment as determinants of the nature of interfirm behavior. We recognize interrelatedness as a recurring pattern of interfirm behavior which may be characterized as a competitive, cooperative, or both. We elaborate on the advantages and disadvantages of various groups of interrelated enterprises and provide what we believe are useful implications for executives.