

# KNOWLEDGE BASE

## RESEARCH

### Relationship marketing can build illusionary loyalty

The battle to win and keep customers in an increasingly competitive and crowded marketplace has become tougher as more companies and products are available to the free world. In response to these competitive pressures, companies are increasing efforts to build customer loyalty—commonly referred to as relationship marketing. But have these efforts been a waste of marketing dollars, or money well spent?

A team of researchers led by Robert Palmatier, an assistant professor of marketing at the Foster School of Business, has found that the payoff from relationship marketing depends on who owns the customer relationship: the salesperson or the company that employs him or her.

Most firms are unaware that relationship marketing efforts may be generating illusionary loyalty, say the researchers in a recent issue of the *International Journal of Research in Marketing*. They say relational loyalty focused toward a salesperson rather than a company as a whole has a larger impact on customer behaviors and financial performance such as increasing sales, but can be worse for the business by making the company more vulnerable to salesperson defections. Palmatier says managers have to balance the higher returns generated by customer-salesperson relationships with the risk of losing salespeople.

“That’s because managers typically only measure their customer’s loyalty to the firm,” Palmatier adds, “leaving

them with a false sense of security if the majority of that relational loyalty actually is owned by the salesperson and the salesperson moves to a competitor.”

### Holier than thou? Employees may not act as “ethical” or “moral” as they claim to be

Bad behavior seems rampant in business, and scholars are divided as to why people act ethically or unethically. Many have argued that ethical behavior is the result of simple judgments between right and wrong. Others suggest that the driving force behind ethical behavior is the individual’s moral identity, or whether the individual thinks of him/herself as an ethical person.

New research from the Foster School suggests that both of these forces are at play. Scott Reynolds, an assistant professor, and Tara Ceranic, a doctoral student, asked people if they would have cheated in college in order to score better on a test. Those who explicitly considered themselves to be moral people and considered cheating to be morally wrong were the least likely to cheat. In contrast, students who considered themselves to be moral but saw cheating as an ethically justifiable behavior were the worst cheaters.

“Our research suggests that a moral identity motivates behavior, but that accurate, ethical judgments are needed to set that

behavior in the right direction,” Reynolds says. “A person’s moral identity can interact with his or her judgments and actually push ethical behaviors to extreme levels, as we saw with the students who decided that cheating was justifiable and OK.”

In a second study, Reynolds and Ceranic presented company managers with an ethically ambiguous scenario: a hardworking hourly employee completes her work early, but needs the hours. Several options ran the gamut from very accommodating (giving the employee the rest of the day off with pay) to very strict (keeping her at work and finding additional tasks). Those managers who viewed themselves as moral people tended to choose the most extreme alternatives.

Reynolds says that companies can promote moral, ethical behavior in the workplace by offering formal ethics training and communicating societal and company ethical “consensus.” The simplest solution is to reward behaviors associated with the traits of a moral

identity (fair, hardworking, compassionate), thereby encouraging the development of moral identities within employees.

The study appears in the *Journal of Applied Psychology*.

### Washington minority business owners are optimistic despite economy

Minority business owners in Washington voiced increased optimism about their prospects—even amidst the threat of recession—in the last half of 2007. This according to the latest *Washington Minority Small Business Survey*, the semi-annual report published by the UW Business and Economic Development Center at the Foster School. Research was led by professors William Bradford, Vandra Huber and Richard Yalch.

Minority business owners in the survey cited significant increases in quarterly sales and profits, and 30 percent of businesses surveyed expected to hire new employees within three months. The report also provides comparative data on Caucasian-owned small businesses, highlighting the different opportunities and challenges within the small business sector.

“Overall, minority-owned small businesses are opening at a faster rate and citing a more supportive business climate than Caucasian-owned businesses,” said Bradford, the Business and Economic Development Endowed Professor of finance. “Whether I’m an investor, a job seeker or a policy wonk, this is information I want to have at my fingertips.”



### Zhou wins NSF grant

Yong-Pin Zhou, an associate professor of operations management, has been awarded a five-year National Science Foundation Career Grant to investigate the operational impacts of service quality. The grant totals \$400,000 over its five-year life. With a PhD from the Wharton School of Business, Zhou has been on faculty at the Foster School of Business since 2000.



### Shah wins Sloan Fellowship

Sonali K. Shah, assistant professor of management and organization, is one of five young researchers nationwide chosen to receive a Sloan Industry Studies Fellowship. The fellowships, awarded by the Alfred P. Sloan Foundation, support the work of promising researchers early in their academic careers.

Shah, who earned her doctorate at MIT before joining the Foster School last summer, plans to use the \$45,000 grant to expand upon her research on software development and how corporations can benefit from working with open source communities.



### Huber wins Fulbright Scholarship

Vandra Huber, a professor of human resources management, has been named a Fulbright Scholar to study next year in Thailand. The Fulbright is the US government’s flagship program in international educational exchange. The last Foster Fulbright Scholar was Paula Laschober in 2004. Past recipients on the Foster faculty include Chip Haley (1994-95), Karl Vesper (1989),

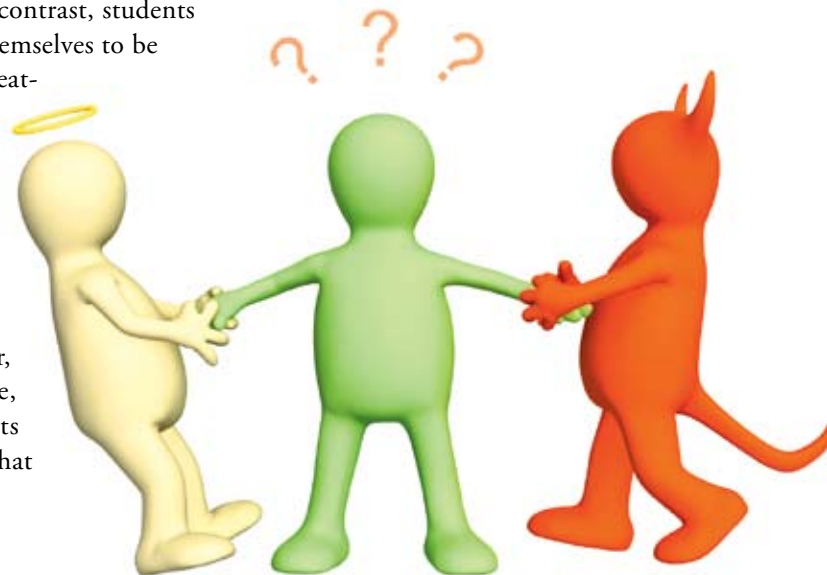
John Narver (1980), Phil Kienast (1977) and Kasi Ramanathan (1960).

### Foster School faculty ranks top 10 in productivity index

The Foster School of Business has the nation’s tenth most prolific faculty in the area of business administration research, according to the third-annual Faculty Scholarly Productivity Index, published in *The Chronicle of Higher Education*.

The 2007 Index also rates the Foster School number two nationally in citations-per-faculty for business administration, a robust indication of the relevance and importance of research published.

A separate, internal study found that the number of research papers by Foster School faculty published in the most influential journals (rated A or A-) increased by 10 percent over the last three years.



## Associate Dean presides over Academy of Management

Tom Lee, the Hughes M. Blake Professor of Management, is a busy man. The latest stretch of his 25-year career in academia has been an amazing run of achievement and leadership. Currently serving as associate dean for academic and faculty affairs at the Foster School of Business, Lee also has recently served as editor of the influential *Academy of Management Journal* and authored, along with Foster collaborator Terry Mitchell, the dominant theory on workplace turnover/retention. This year he's also president of the 19,000-member international Academy of Management. *UW Business* asked him about this latest addition to his curriculum vitae.

### *What is the Academy of Management?*

TL: It's the premier professional organization for professors of management in the world. We're the mechanism through which people in the management discipline organize around professional issues and interests. We publish several top-tier

academic journals and organize an annual conference with around 9,000 attendees, 4,000 speakers and nearly as many sessions.

### *How did you get involved in the Academy?*

Shortly after graduate school I began attending meetings, getting involved in divisions, publishing papers in the *Academy of Management Journal*. Then I was asked to review papers and, eventually, to serve on the editorial board for two terms. I became associate editor and eventually editor. I think it's through this natural progression that your research and professional service gets known by the membership.

### *You learned that you were elected to the Academy's presidential cycle in dramatic fashion. What happened?*

It's like that old Frank Sinatra song: "That's life, that's what all the people say / You're riding high in April, shot down in May." In April 2004 I was elected to the Fellows of the Academy of Management and learned that I was elected to



the presidential sequence while presenting a paper at the London Business School. I thought, "I'm doing pretty well." Then in May I was diagnosed with a brain tumor. Thirty years ago, I'd have been dead. But the surgery was successful. Now I take care of myself, take my pills, and life goes on.

### *What does the president of the Academy of Management do?*

In addition to planning the organization's agenda and running the board of governors and the executive committee, I'm working with the four other officers to create a lasting vision. A few years ago, the elected officers decided that we were going to make this the golden age of the Academy of Management. We're getting a lot of stuff done.

### *For instance?*

Increasing publishing opportunities; expanding applications of technology to maintain the profession and maintain professional contacts. Last year we podcasted some of our sessions and set up virtual communities where our members can organize around any topic of interest—professional or personal. We're also developing partnerships with the leading organizations of other professions, like the Institute of Medicine, for example.

### *How has your long engagement with the Academy impacted your career?*

It's been a great honor, and certainly a wonderful opportunity to affect the study and teaching of management, and a great way to showcase the Foster School of Business. Personally, it's allowed me to visit cool places all over the world and meet many wonderful colleagues. Some especially nice faculty at a university in Hong Kong located my ancestral village in southern China, took me there and even tracked down my ancestral house. I couldn't have accomplished this alone.

### *The Sinatra lyric you quoted before finishes "But I know I'm gonna change that tune, when I'm back on top in June." If you have reached the June of your career, what's next?*

Academically, I feel like a brand new doctoral student or assistant professor again, and I'm trying to figure out, what do I do next? It's exciting.

## Senior lecturer named to "Best of Puget Sound" list



*The Seattle Times* editorial board named Debra Glassman, a senior lecturer in business economics at the Foster School of Business, one of ten people or institutions that did the most to make the Puget Sound region a better place to live in 2007.

As faculty director of the Global Business Center and the Certificate of International Studies in Business (CISB), Glassman has been instrumental in guiding development of the UW Global Social Entrepreneurship Competition (GSEC). The GSEC catalyzes interdisciplinary teams from universities around the world to devise creative and commercially sustainable ways of improving the quality of life in developing countries.

Glassman, an expert in global macroeconomics and international finance, trade policy and institutions, has been on faculty at the Foster School since 1992.

## Scholarship to honor Saxberg's 50 years on faculty



Borje "Bud" Saxberg, a faculty institution at the Foster School for the past 50 years, has been honored with the creation of a scholarship in his name.

The announcement came as a surprise ending to the 2007 UW Business Leadership Banquet, November 1. Neal Dempsey (BA 1964), managing general partner of Bay Partners, long-time member of the Foster School Advisory Board and a former student of Saxberg, provided the lead gift of \$100,000. This founding gift and all others made to the fund through the close of Campaign UW: Creating Futures (June 30, 2008), receive a 50 percent match by the UW through its Students First initiative.

The Bud Saxberg Endowed Scholarship will support undergraduate students in the field of entrepreneurship and innovation. It's a fitting testament to Saxberg, a still-active professor of management and organization who was instrumental in launching the UW Center for Innovation and Entrepreneurship.

## Assistant professor's academic career inspired by experience, impelled by Enron

To most, Enron is a kind of shorthand, a single-word cautionary tale of corporate deception and avarice. To Morela Hernandez, a new assistant professor at the Foster School, Enron is a former employer. And it was a great employer, at least for a while.

"When I was graduating from Rice, I considered Bain, Boston Consulting Group, Goldman and Mackenzie," she says. "And I chose Enron because it was such an amazing place to work. Amazing diversity. Amazing opportunity. Amazing environment that promoted different ideas. It was very exciting."

Hernandez started in Enron's human resources department doing undergraduate research on workplace diversity, moved to community affairs and, after graduation, into industrial markets. But her rise was soon interrupted by the company's fall. She was present at every lurch of descent, as the national news vans began circling outside, the ubiquitous stock tickers were quietly removed, and the once-effusive company leadership went silent.

When the scandal-fueled bankruptcy and mass layoffs were finally announced in late 2001, Hernandez landed at Duke's Fuqua School of Business, where she pursued a PhD. Her area of expertise? Effective, ethical, enduring leadership. She coached executives at Fuqua and the London Business School, and continues to do so through various executive education programs.

Hernandez is quick to note, however, that Enron is not the reason why she pursued a career in ethical leadership. It was her own unique background of relative privilege set against abject poverty. "Enron was certainly a learning



experience," she says. "But what's more deeply ingrained in me are my experiences in Latin America."

Hernandez, who speaks Spanish, Portuguese, French and English, grew up in Honduras, Brazil and the United States. She counts her father, a career politician and diplomat, as one of the

most honest leaders of this region. And she's seen the results of less scrupulous businessmen and politicians. "I grew up with this knowledge that people are taken advantage of every day by those with more power and privilege," Hernandez says. "That's impacted me

at a fundamental level. I feel very strongly that people who have the most power must take the most responsibility for their actions."

This insight colors everything she touches. At the Foster School of Business, Hernandez's research is expanding upon her foundation of effective, ethical leadership to explore cross-cultural issues and long-term implications. She also teaches leadership electives to undergraduates and both full-time and evening MBAs, and will be teaching leadership in the Foster School's Executive Education.

What she doesn't teach is the Enron case. "I share experiences every now and then," Hernandez says. "But I teach ethical leadership. And I don't think Enron is a good example even of unethical behavior because the decision makers were working in the wrong, and they knew it. Enron was black-and-white. And ethics is all about the gray, the choices that you are unsure about."

"I think some scholars would disagree with me. But when you teach people about the different components of leadership, their cumulative effects, it's a very complex, often murky area to navigate. It engages many pieces of your personality, takes a lot of effort and time to build."

To help students and executives hone their capabilities, Hernandez puts leadership in a framework that calls on them to analyze and develop behavior in six key areas: personal, relational, contextual, inspirational, supportive and, of course, ethical.

"It's a challenge to think through organizational performance issues within that frame," she admits. "But I would argue that the companies that are most successful are the ones that have leaders who can think long-term and behave ethically to maintain long-term effectiveness."

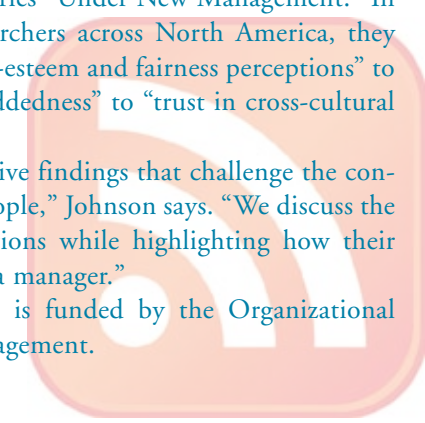
### Faculty podcasts deliver latest intelligence on organizational behavior

Two Foster School faculty members are producing a new series of podcasts—audio interviews available for download to computer or mobile device—that explore new and notable research in the field of organizational behavior.

Michael Johnson and Morela Hernandez, both assistant professors of management, produce, research and host the series "Under New Management." In their 30-minute interviews with top researchers across North America, they cover topics that range from "employee self-esteem and fairness perceptions" to "shared leadership in teams" to "job embeddedness" to "trust in cross-cultural business relationships."

"Often these studies have counterintuitive findings that challenge the conventional wisdom about how to manage people," Johnson says. "We discuss the implications of their studies on organizations while highlighting how their research can enhance your effectiveness as a manager."

The "Under New Management" series is funded by the Organizational Behavior Division of the Academy of Management.



### Foster School launches Minority Business Executive Program

The Foster School of Business offers its first Minority Business Executive Program June 22-27, 2008. The program is designed to increase the competitiveness of minority business enterprises. Through a week-long, intensive management program, CEOs and leaders of minority owned businesses will focus on finance and accounting, brand management strategy, leadership, entrepreneurship and innovation, marketing strategy, human resources strategy and business ethics.

The program is a partnership between the Foster School's Executive Education, the UW Business and Economic Development Center and the Northwest Minority Business Council.

Founding corporate sponsors are Boeing, Microsoft, Nordstrom, Washington Mutual and Zions.

#### Upcoming Executive Education seminars

**May 28-30:** Finance and Accounting for Non-Financial Executives

**September 22-24:** Leadership that Shapes the Future

**October 8-9:** Building Brand & Value Through Sustainable Business Practices

**October 28-30:** Finance and Accounting for Non-Financial Executives

**November 19-20:** Negotiating Skills

*For more information on Foster School Executive Education or the Minority Business Executive Program, call 206-543-8560 or visit: [www.foster.washington.edu/exec\\_ed.html](http://www.foster.washington.edu/exec_ed.html).*