Teaching by example through case studies
Tim Skelton talks with Bas Koene and Tao Yue

Inter-organisational trust: is more always better?
By Merieke Stevens

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The fairness perception of bonus payment allocations
By Stephan Kramer

When and why consumers prefer products from user-driven firms
By Christoph Fuchs

The relevance of innovating beyond technology
By Kevin Heij

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  Beware the march of English as the lingua franca of the international commercial world. If handled insensitively, it could damage a potentially successful integration trajectory in a merger or acquisition.

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- When and why consumers prefer products from user-driven firms
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  Management research has shown that involving customers in your product design can be an effective strategy. Muji furniture and Threadless apparel are just two examples of how powerful this strategy can be. Indeed, user-driven marketing strategies are being deployed widely by a growing number of corporations, from Dell’s crowdsourcing initiatives to Starbucks’ “Design your own Drink”.

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  Technological innovation may receive greater attention, but innovation covers more than technology. Whether the innovation has to do with management (think of the introduction of self-managed teams), co-creation with customers (for instance at Lego or in health care), or business model innovation (such as at DSM and Google), various types of non-technological innovation are also important opportunities for competitive advantage.
Innovation – the key to sustainable success

If executives leading the world’s most dynamic and forward-looking companies were asked to identify one factor critical to achieving sustainable business success, I would expect most if not all of them to say ‘Innovation’.

Innovation, regardless of what form it takes, is the engine of change and without it organisations can only stand still with the inevitable result that they are left behind in what is a progress-driven world.

It is encouraging then that the findings of the 2015 Erasmus Competition and Innovation Monitor, developed and published by RSM’s INSCOPE: Research for Innovation, show that the innovation capacity of Dutch companies has risen. At the same time, however, the report also shows that while some firms place too much emphasis on developing technological innovations, overall investment in R&D and ICT has fallen yet again.

To succeed, leaders need to look at the wider innovation picture and this is reflected in the articles in this issue of RSM Discovery magazine. For example, Kevin Heij points out in his article that ‘management innovation is a source of competitive advantage that is at least as important as technological innovation.’ In the realm of product design, Christoph Fuchs outlines in his article how and in what ways a growing number of companies are innovating by looking ‘to their user communities for direction on new product ideas or improvements...’

Of course, people are at the heart of innovation, thus fostering an organisational climate of fairness, ensuring that management communicates effectively, and developing trust between collaborating business partnerships is paramount, as is amply illustrated in the articles by Stephan Kramer, Joep Cornelissen and Merieke Stevens.

Business education has a major part to play in providing aspiring entrepreneurs with the skills and insights they need to help them step forward confidently with their innovations, as does teaching students and managers alike about the successes and failures of others. The value of both elements is made very clear in Willem Hulsink’s article and in the overview of RSM’s Case Development Centre.

I am sure you will find that each of the articles presented in this issue of RSM Discovery magazine offers unique management insights that will be of practical value within your own organisational scenarios and I look forward to receiving any comments that you might have.

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Teaching by example through case studies

Tim Skelton talks with Bas Koene and Tao Yue

RSM’s Case Development Centre documents business experiences and turns them into useful learning tools for students and business managers alike. It does this by writing case studies to help train current and future business leaders.

Established in 2008, the Case Development Centre (CDC) is one of the few of its kind in Europe. Working closely with academia and business, it brings first-hand knowledge of business practices into management education, and - conversely - helps to communicate the latest management theory back into the business world. ‘We bring theory and practice together, helping both practitioners and academics to turn business experience into attention-grabbing stories for learning,’ CDC's director Bas Koene explains.

‘The case studies are used by business students and in executive programmes. Interestingly, while our studies are mainly created to teach students, the process of developing a case is often valuable for the organisation involved. It's like a mirror helping them to see their own decision-making process better,’ he says.

When the centre was established there was a clear need for cases documenting European business practice. ‘Teachers were using many US-based cases, and their content, decision-making style and mind-set were all American,’ Bas points out. ‘Moreover we were looking for cases that richly and accurately present the complexity of European situations involving active societal stakeholders; cases with clever and creative solutions that appreciate the importance of multiple perspectives, and provide sustainably profitable solutions,’ he adds.

Although the majority of cases are placed in a European context, the key issues often reflect global challenges. One example is the case of Koppert Cress, a small Dutch horticultural company that grows “micro-vegetables” such as cresses. The company had to develop sophisticated entrepreneurial logistics systems to supply to top chefs such as Ferran Adrià.

Another example is Vanderlande. ‘You see their baggage systems in
Teaching by example through case studies (continued)

Tim Skelton talks with Bas Koene and Tao Yue

many airports all over the world,’ Bas says. ‘They also develop warehousing systems. We did a case on their logistics production strategy to deal with the development of quickly growing international markets in the face of competition from abroad.’ Other cases involve international stories, such as Chinese companies interested in doing business in Europe.

International interest
CDC’s collaborations also reflect a growing international interest in the professional development of case material for learning. The centre has developed a co-branded case series with the Ivey Business School, and is working with top academic institutions in Stockholm, Istanbul and Ankara, and Shanghai to develop their case writing capabilities. ‘Interest in case writing is increasing, along with an interest in qualitative methods of business research more broadly,’ Bas explains. ‘The case story investigates the premises driving actions, rather than just measuring outcomes. In terms of learning this is highly effective.’

Moreover, the centre is well placed when it comes to an emerging economic power like China. RSM recently began co-operating with Shanghai University of Finance and Economics. As part of the initiative, CDC is developing a range of case studies on the Shanghai Free Trade Zone. ‘The Beijing government is exploring possibilities for facilitating cross-border activities with both Chinese and international companies. This offers new opportunities and requires careful and the responsible engagement of business leaders,’ Bas says. ‘Our co-operation draws on RSM’s strong competences in finance and logistics, and it builds on our ability at RSM to do part of the work in Chinese.’

CDC’s cases are widely published via international outlets such as the Case Centre in the UK, Ivey Publishing, and in media outlets such as the Financial Times (FT) and Harvard Business Review (HBR). Its cases have also won major international competitions, including the Case Centre Case Awards and the EFMD Case Writing Competition, and are used by management schools worldwide.

Bas is particularly proud that the FT and HBR recognise the centre’s potential. ‘We developed special material for both,’ he says. ‘For the FT we translated key insights from our studies for them, such as an early case we developed on the business model of Alibaba’s Taobao, and the lessons in the approach of Koppert Cress.’ For HBR the centre has contributed to a special series of fictionalised case studies. These are based on actual business experiences, but adapted so they are short and easy to read, and dramatised with dilemmas.

Whether dramatised or factual, quality is key. ‘We always develop cases based on intensive field research and accompanied by a teaching note. Teaching notes are important. They reflect the careful analysis and evaluation of the case study as an instrument for learning,’ Bas says.

So how is a potential case study chosen? As Bas reveals, they come from various routes. ‘We started out helping RSM staff, but soon it became clear there was also interest within companies seeking to share their experiences,’ he says. ‘In that way we kind of act as matchmakers. We work with programme directors wanting to strengthen their courses. And we help find companies with relevant experience, then develop cases that showcase the key dynamics, exceptional experiences, and novel approaches.’

Teaching tools
For RSM teaching programmes, CDC actively solicits cases, making use of the Dutch HRM Network’s strong business connections. One recent example is the prize-winning study, Vanderlande Industries: parcel and postal predicaments, which was developed as part of a series for a specialised business services programme together with
possibilities of their business model was the core there.’

Becoming a good case study writer requires certain skills. CDC’s main writer Tao Yue says the ideal person must be able to explain a highly technical subject in a non-technical way. ‘He/she is a translator between professional (academic or business) and everyday languages, has a keen eye and can see the “point” in amongst the clutter, and is able to tell a story in an engaging way that everyone understands,’ she explains.

Bas agrees: ‘A good writer notices the complexity of a situation, but is also able to draw out the key challenges, and formulate them in such a way that readers are motivated to spring to action and solve the case.’

As with many other fields, CDC’s overall approach is constantly evolving, and new multimedia and technical possibilities are changing the way it builds case studies. ‘Documenting stories was previously very much about writing up a situation and relevant information in a paper-based case,’ Bas says. Now, however, he says the centre is experimenting with novel methods. Technology makes it possible to present cases in new ways by adding film and digital content.

This opens up other opportunities. While the relevant case focus and question may change little, information in the case can change rapidly. As a result, the centre is investigating the possibility of creating regularly updated “live cases” that present the most up-to-date understanding of the situation. ‘In this way,’ Bas says, ‘the relationship between practical experience, teaching and course design, and case development is also changing. It’s all becoming more intertwined.’

More information about RSM’s Case Development Centre can be found at WEB www.irim.eur.nl/cdc

“The case story investigates the premises driving actions, rather than just measuring outcomes. In terms of learning this is highly effective.” Bas Koene, director, CDC
Honda’s efforts to establish a supplier base in the USA, which involved several visits to Honda and seven of its suppliers between 1992 and 1994, with a follow-up in 2011.

Rude awakening

From the 1950s to the 1980s, the close relationships between Nissan and its suppliers had many benefits for Nissan. Suppliers would start preparations for a new contract before they were formally awarded it. They usually accepted last-minute requests for production schedule and delivery changes, overtime work, and even engineering changes, without demanding any additional compensation from Nissan.

Over time, however, these close relationships gradually devolved into a source of competitive disadvantage for Nissan, contributing to its financial losses in nine out of 10 years in the 1990s. Parts costs rose beyond the global average. Yet even when factory utilisation slipped to 50 per cent, the company maintained the same numbers of suppliers.

Some of the practices had grown clearly dysfunctional over time. In the purchasing department, for example, purchasers were in charge of a specific company, not a specific product group. As a purchaser, I might be sitting in a meeting and discussing where we source the radiators for a new model, and advocate my supplier simply because he was my supplier (who, not coincidentally, was also the supplier of various personal favours, such as golf trips or a future job after my retirement from Nissan).

To answer this question, we compared the experiences of Nissan Motor Co. in Japan following the establishment of the Renault–Nissan alliance during the period when the Nissan keiretsu (supply chain family) was dismantled, with that of Honda Motor Company in North America, early in the development of its North American supply base.

The Nissan insights were based on my own research, a series of face-to-face interviews I conducted in Japan and France with key actors over a 12-year period between 2000 and 2012. I also worked on the production line of a Tier 2 Nissan supplier for a few weeks. The suppliers interviewed (seven first-tier and two second-tier Nissan suppliers) were selected to ensure a diverse set of strong and weak keiretsu affiliations, different relationship durations, and primary product and production process. Most interviews were conducted in Japanese. My co-authors followed Honda’s efforts to establish a supplier base in the USA, which involved several visits to Honda and seven of its suppliers between 1992 and 1994, with a follow-up in 2011.

On the one hand, most scholars say there are important advantages to deep trust in the buyer-supplier relationship: reduced monitoring costs, superior information sharing routines, and lower transaction costs. On the other hand, too much trust can have negative consequences: diminished information gathering due to the perception that not much vigilance is needed; complacency; and burdensome obligations between the parties.

In a paper I recently published with John Paul MacDuffie, a professor of management at the Wharton School of the University of Pennsylvania in Philadelphia, and Susan Helper, a professor of economics at Case Western Reserve University in Cleveland, we looked at the experience of two Japanese automakers and concluded that the best business relationship should be neither too trusting nor too sceptical. But how do you strike the right balance?

Between friends and loved ones, more trust is mostly a good thing. But how about trust between business partners? Until recently, the dominant view has been that investments in trust generally result in positive returns. However, some of my research suggests that this may not actually be the case.

“Optimal inter-organisational trust is a balance of powerful and opposed forces...”
Honda’s win
The example of Honda offers a very different story but a somewhat similar moral. Honda’s start in the USA, first in manufacturing motorcycles (1978) and later cars (1982), was not auspicious. In Japan, the company had suffered from being overly committed to its suppliers in past recessions, and had an awareness of the potential dark side of trust. Honda sought to select self-reliant partners who could be responsive to its current and future needs. As a sign of good faith, they looked for a willingness to make investments in new technologies and new capabilities, without explicit contractual commitments from Honda.

Most suppliers did not have a clear sense of what kind of company Honda was, and in addition, their long experiences with the adversarial purchasing behaviour of American automakers had taught them to expect the worst. Suppliers saw ulterior motives in Honda’s insistence on learning every detail about their production process and, especially, their costs. Nor did they like the idea of making a substantial investment without a contract.

Despite that rocky beginning, Honda still developed stable, trusting relations with small local suppliers within a decade of opening its first US auto assembly plant in 1982. It also appeared to have avoided the traps of complacency, blindness, and excess obligation. It did so by implementing its Honda Way philosophy and a supplier development initiative known as BP (the acronym has many referents, eg, “best practices”, “best process”, “best profits” and “best partner”).

When Carlos Ghosn signed on as CEO, part of his remit was to restructure those cosy relationships. To signal a clean break from the past, he announced a dramatic restructuring of the supply base. Shares in all but four of the nearly 1,400 affiliated companies in Nissan’s keiretsu were to be sold, and Nissan’s supplier roster slashed from 1,145 to 600. The survivors would be required to reduce costs by 20 per cent within three years, without expecting any help from Nissan.

From Nissan’s point of view, the cost cutting was a success. But it turned out that a purely transactional relationship also had its problems. Suppliers felt betrayed that Nissan “did not keep its promises” to share the company’s restored prosperity, despite the fact that Ghosn had explicitly said Nissan was no longer making such promises.

In 2004, faced with their opposition, Ghosn began to back-pedal, publicly announcing the return to some of its previous keiretsu practices, such as a long-term orientation, equity holding, and technical assistance to suppliers. Even now, a decade later, the company still struggles to gain the right balance between too much and too little trust.

“...the best business relationship should be neither too trusting nor too sceptical. But how do you strike the right balance?”
By contrast, in Honda’s early dealings with small US suppliers, executives praised the suppliers for being so responsive to its demands.

Finally, we learned something about ways to regain trust. This may be achieved either through a dramatic process of reorientation, as at Nissan, or by recalibration, as at Honda. Reorientation is often revolutionary, a clear break from past processes. Recalibration, by contrast, is perpetual but low-key – it consists of continuous, small changes that enable the relationship to stay near optimal trust. Sometimes the kind of reorientation that Nissan undertook is necessary, but it’s much tougher on the company than ongoing recalibration. It’s a bit like maintaining your weight – in the end, it’s better to make a few minor adjustments every few weeks than to gain 20 kilos and go on a crash diet to lose it all at once.

Optimal inter-organisational trust is a balance of powerful and opposed forces: faith vs. scepticism, favouritism vs. impartiality, contentment vs. exigency, and loyalty vs. opportunism. The stories of Nissan and Honda suggest that the best way to avoid a ruptured relationship is essentially by continuous recalibration to prevent reaching the point where it needs to be repaired.

Scepticism and trust
Our comparison of Nissan and Honda’s experience led us to think that maybe companies should look at trust as an inverted U – beneficial within a certain range of behaviour, but potentially negative outside that band.

Instead of trying to achieve perfect trust, maybe the more productive approach would be to try to maintain an optimal level of trust instead – enough trust to enable the company and the supplier to work towards mutual goals, but not so much that the company never double-checks the supplier’s prices and specifications.

A second lesson we drew from these cases is that it’s important to give credit where credit is due. When Nissan did not recognise the role of suppliers in achieving its restructuring goals ahead of schedule, suppliers became bitter. By contrast, in Honda’s early dealings with small US suppliers, executives praised the suppliers for being so responsive to its demands.


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RSM Expertise
Specialising in the disciplines of Supply Chain Management, Business Information Management, and Innovation Management, the Department of Technology & Operations Management deals with the effective management of how to develop, produce and deliver products and services. The department’s world-class scholars develop scientific knowledge and train students to become reflective practitioners who can successfully manage and design supply chains, information systems and innovation processes. In doing so, the department combines scientific ambition and rigour with practical relevance, both in research and in teaching.

"...the best way to avoid a ruptured relationship is essentially by continuous recalibration..."
Learning to take the entrepreneurial plunge

By Willem Hulsink and Andreas Rauch

Recent research findings illustrate that by integrating entrepreneurship into management education programmes the seeds for business creation can be sown into the minds of future entrepreneurs and change the overall misperception of becoming self-employed as an exclusively perilous career move.

Whilst post-business creation studies in the field of entrepreneurship are on the rise, it is still taking Master graduates around 10 years to go through with their intentions, as evidenced by the current 36/37 average age of first-time entrepreneurs. The figure may go down in years to come, as entrepreneurship becomes an increasingly present component in the curricula of business schools and universities.

However, the trend has been a long time coming. It was not until the 1970s that the transatlantic teaching of entrepreneurship started to feature on a wider basis, with Harvard the main exception, having launched its first such course in the late 1930s.

Europe has been playing catch-up with the United States and Canada for the past couple of decades but the signs are that entrepreneurship is no longer considered something one simply learns upon launching a business. However, the question remains – why the need to teach entrepreneurship in the first place? The answer lies as much in the perception of the activity as in the potential dangers it poses.

Perception, intention, action
Recent investigation of business creation and the reasons why the “gestation period” for some entrepreneurs is sometimes a long one points to attitudes as much as concrete risks. Launching a venture is often viewed as fraught with danger, and so it is no coincidence that a large proportion of entrepreneurs are often inspired by reassuring success stories within their own family. Going outside the bosom of the family, biographies and autobiographies of high-achievers such as Richard Branson and James Dyson are used more and more within entrepreneurship education programmes in order to try to inspire budding business creators to translate their curiosity into action.

The chain of thought from the perception of entrepreneurship, to the intention to set up a business, and on to the final act of actually doing so, is illustrated by what is known in psychology circles as “Theory of Planned Behaviour”, where behaviour can be traced back to the original intention, which is then shaped by attitude and finally the perceived difficulty or ease of the final act (in this case, setting up one’s own business).

It is the last link in the psychological chain (ie, perception) that could be positively impacted by giving up-and-coming entrepreneurs more than just a feel for creating a business before they have completed their studies...
Education for entrepreneurship
One thing the best examples of teaching entrepreneurship do not do is simply espouse theory. There must be education about, for and through entrepreneurship, with the lattermost stage being carried through into the actual creation and running of an organisation. The ideal programme should seek to embrace all three, by enabling tomorrow’s business creators to acquire relevant knowledge but also adopt the necessary tools and techniques and to learn by doing so as to ensure that entrepreneurial drive and talent are nurtured through actual business practice.

A recent cross-analysis of the intention-perception-action chain within two separate populations at Rotterdam School of Management (RSM) sought to establish the impact this teaching approach had upon students of the school’s MSc in Entrepreneurship and MSc in Supply Chain Management. Based upon data analysis encompassing business creation perception, intention and action and also age, gender and the existence of entrepreneurs within the family of the participants in the study, a clear 18-month gestation period emerged, after which many students of the specialised entrepreneurship programme were more willing to translate their desire to create their own business into concrete entrepreneurial behaviour.

Above all, it was the students’ initial attitude towards going into business for themselves that impacted their eventual decision, with those having gone through a wide-ranging education about, for and through entrepreneurship the most likely to take the business creation plunge, due to a more positive mind-set nurtured through studies.

One of the key triggers at RSM has proven to be the Titans of Venturing course component, which draws precisely on the aforementioned biographical approach to inspire students not only to think about entrepreneurship but then to follow up with action, once duly stimulated by the success stories of Branson, Dyson, et al.

The wider debate
The quasi-psychological debate surrounding entrepreneurial drive and the ability to translate it into actual business creation is just one part of the overall equation. Of more practical and economic significance is the positive effect that this rising trend can have, through job creation in the case of larger-scale ventures requiring new hires and expansion. Timing is also open to further exploration – establishing when the right time is to apply learnings from an entrepreneurship education remains open to question. However, the aforementioned study establishes that typically an 18-month lag between graduation and business launch is the least to be expected.

Above all, a clear case has been made for not just sharing theory, passing on vital tools and techniques and getting budding entrepreneurs to dip their toe in the water during their studies. At least as vital is the need to shift the perception of entrepreneurship from that of a potentially perilous career move to one that can be both a personal success and also a driver of economic performance on a broader level.


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“...the signs are that entrepreneurship is no longer considered something one simply learns upon launching a business.”
This is just one of the provocative strands of thinking that emerge from research conducted over the past several years into the aftermath of a high-profile acquisition involving a French company as the buyer and a Dutch company as the target. This research has generated great data that could readily be put to use for further multiple projects; the language element is one of the most interesting aspects to have emerged so far.

Although the French company is clearly the senior partner, actions taken post-acquisition contain the potential to skew future development. Management has claimed that the deal was in fact a merger of equals and dictated the use of English across the company, replacing French and Dutch, even in its domestic locations. This created growing suspicions that employees in the theoretically junior partner in the relationship could in fact turn out to have the eventual upper hand, largely because of their greater fluency in English.

Rather than only focusing on the senior management level of the merged organisation, we focused on exploring how middle managers and employees on the ground made sense of the merger, both individually and collectively, and how they were to a greater or lesser degree facilitated in this by their command of the English language. We found that tensions between the two companies heightened. This can be especially significant if staff are seen to be promoted on the basis of their perceived greater fluency in English rather than on the basis of their technical knowledge and capabilities.

There are two principal ways of measuring an individual’s fluency in a language. The first is subjective, asking people how well they speak a certain language. In this case, the subjective sense of fluency was very high for both Dutch and French speakers alike (although significantly higher for the Dutch side). But when we applied objective measuring techniques to categorise an individual’s level of fluency—such as recording the rate of an individual’s speech in the English language, the extent of the speaker’s vocabulary and the use of idioms in an appropriate context—the results were often very different. People scored much less well on paper than they did in their own head. Many were in fact far less fluent than they thought they were.

Language environment

Our study highlights several facets of the role of language fluency in the
What this suggests is that marked differences in fluency may lead to fault lines, conflict and power struggles in a company. Senior management therefore needs to be aware of fluency levels in English across the organisation and to test these levels using the process referred to above.

We also think that management should reflect on the way in which they formulate their messages and express themselves in English, trying to find a company-specific vernacular that most people will understand. In other words, rather than using the richness of the English language they would be better advised to use common business idioms, to phrase sentences more simply and use less jargon in a BELF environment. Communicating in this way could help senior management increase their influence over the behaviour of the workforce and will help them to be better understood.

Fluency thresholds
The good news is that the minimum fluency threshold for such a common base is surprisingly low. Even in locations where people demonstrated the lowest levels of fluency, it is clear that they could still communicate adequately in English with one another locally and with their colleagues elsewhere. There is, however, a cut-off point and ultimately a price to be paid by those who just cross that threshold. The least fluent will almost certainly find that fewer job opportunities become available to them.

In sum, language matters, and its importance stretches beyond essential day-to-day communication. It helps in the construction of social and corporate identity. It helps in maintaining hierarchy. It helps in demonstrating class and educational distinction. It helps in delivering individual and corporate success. It deserves to be studied further.

This article draws its inspiration from the paper Explaining Employees’ Reactions towards a Cross-Border Merger: The Role of English Language Fluency, written by David P. Kroon, Joep Cornelissen and Eero Vaara. Management International Review, December 2015, Volume 55, Issue 6, pp 775-800. DOI: http://dx.doi.org/10.1007/s11575-015-0259-2

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An employer who strikes the right balance will be rewarded with the continuing trust and hard work of its employees, who feel they are being treated fairly. An employer who fails to strike the right balance will find, eventually if not immediately, that the workforce becomes disenchanted, sullen and unwilling to continue working in an unfair environment.

Fairness perceptions of annual bonus payments: the effects of subjective performance measures and the achievement of bonus targets is the full title of a paper I co-authored on the topic with Ludwig Voußem and Utz Schäffer of WHU – Otto Beisheim School of Management. We focus on the fairness perceptions of bonus payment allocations in particular because they signal whether an organisation appreciates and rewards hard work, and there is a clear argument that the work of anyone beyond the strict call of duty should be reflected in bonus payments.

Broadly speaking, there are two principal ways to approach bonus payments, objective and subjective. Each has its strengths and weaknesses, which will impact on their perceived fairness.

In an objective system, bonuses are based, inter alia, on the meeting of quantifiable criteria, such as sales targets, customer satisfaction or the employing company’s share price. The bonus payment calculation will be purely mechanical and thus employees have a clear understanding of how their achievement of a target translates in monetary outcomes.

In a subjective environment, bonus payments will be at the discretion of managers and supervisors. This enables supervisors to take into account employees’ work efforts on dimensions that are otherwise difficult to measure, and also allows supervisors to protect employees against the impact of uncontrollable external events such as a collapse in global demand or plummeting commodity prices.

However, subjective assessments also open a path to potential abuse and perceived unfairness. One employee might, for example, suffer unfairly from a manager’s recollection and perception of past behaviour. Another might benefit unduly from what Financial Times management columnist Lucy Kellaway recently described as ‘boss crush’, which refers to the phenomenon in which a manager takes a liking to or favours a particular employee and views everything that that employee does through a rose-tinted prism. Supervisors are, after all, human beings who are well capable of making sub-optimal decisions.

Given the costs and benefits of subjectivity, the question we try to answer in our study is when subjectivity is beneficial and when it becomes harmful. On the basis that a picture paints a thousand words, let’s look at real-life examples of varying bonus-related payment structures to demonstrate a number of the lessons to be learnt. They are drawn from the working experience of John, a hypothetical em-
Broadly speaking, there are two principal ways to approach bonus payments, objective and subjective. Each has its strengths and weaknesses...

But during times of financial crises, fewer customers visited the store. Those who did visit shoplifted as much as they bought, and even though John worked very hard on making sales to every customer who came through the doors, he failed to meet his targets. It was in these times that he felt that his extra effort should have been recognised and rewarded by his boss on aspects other than objective sales performance.

Some time later, while working as a middle manager in the news industry, John found himself in a world in which a bonus system was in operation, but which was allocated in its entirety by top management on the basis of opaque criteria unknown to the employees.

One morning John came to the office to find his colleagues all excited about the bonuses that had just been paid. Unlike that of some of his colleagues, his own salary statement contained no reference to any bonus payment. Later he found out that the biggest bonuses went not to the hardest working, most profitable or most eager to co-operate with senior management in achieving strategic and tactical goals. They went instead to the employees who were most successful in ingratiating themselves with top management. This is a classic example of a process and outcome that is entirely subjective, delivering results that were perceived to be arbitrary, unfair and utterly demotivating. Not long after this incident, John left the company for good.

Finally, while working for an international bank, our salesman turned middle manager turned would-be banker John benefited from a profit-sharing scheme, payments under which were decided worldwide at board level according to a pre-set formula linked to annual earnings and the publicly quoted share price. Moreover, this could be overridden in special circumstances; such as in the case of a spectacularly ill-conceived acquisition on the west coast of the USA, over which the ordinary staff member had no control and which had a devastating impact on the bank’s earnings. This is slightly more complicated than the systems outlined before, but was at least perceived as fair by the majority of the company’s employees.

In sum, it is important to note that creating a healthy amount of subjectivity can strengthen fairness perceptions. This gives supervisors the opportunity to recognise employee performance that is difficult to measure objectively without rendering the decision process completely opaque and subject to human bias. But as John’s experience shows, whichever system is implemented, openness and clear communication are essential.

This article draws its inspiration from the paper Fairness perceptions of annual bonus payments: the effects of subjective performance measures and the achievement of bonus targets, written by Ludwig Voußem, Stephan Kramer and Utz Schäffer. It is forthcoming in the journal Management Accounting Research.

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When and why consumers prefer products from user-driven firms

By Christoph Fuchs

Management research has shown that involving customers in your product design can be an effective strategy. Muji furniture and Threadless apparel are just two examples of how powerful this strategy can be. Indeed, user-driven marketing strategies are being deployed widely by a growing number of corporations, from Dell’s crowdsourcing initiatives to Starbucks’ “Design your own Drink”.

While giving your consumers a voice can certainly create value, this is not always the case. A plethora of counter-examples can demonstrate how ineffectual user-driven tactics can be when applied in the wrong circumstances. So how, and when, is this a value-adding strategy?

Together with Darren Dahl from the University of British Columbia in Vancouver, and Martin Schreier from the WU Vienna University of Economics and Business, in Vienna, we designed a series of studies examining precisely when this strategy is effective. Previous studies have focused on evaluating the quality of user-driven products versus designer-driven; we wanted to identify consumer perceptions of these products, namely, the reasons why consumers display a preference for user-driven products and under what specific circumstances.

User-driven firms
Companies have typically depended on managers for decisions relating to products and product design (with or without input from market research). Now a growing number of companies look to their user communities for direction on new product ideas or improvements, and market them as “user-designed products” to the broader consumer market.

This strategy is both a smart response to an available resource and a compelling one. So great is the power of consumers today to influence sales and reputation that companies can and should engage with them in some form or another.

The firms that draw heavily on their users for everything from product design to marketing have earned themselves the moniker “user-driven firms”. The first of these to emerge were in the field of open-source software, where the unmet needs of a tech-savvy consumer community led to the development of open-source software that was created for users by users – a community of hobbyist programmers and professionals willing to donate their time and effort to designing statistical software. Along with it came the beginning of a revolution in the user/company relationship. Firefox is perhaps one of the greatest examples, relying on the input of users to set up and improve on existing browsers and subsequently becoming the dominant browser on the market.

In the years since, we have seen companies either embrace this trend by incorporating customers into their decision-making processes, or maintain traditional approaches to decision-making based on internal expertise. So what of these different approaches?

User-driven companies use their customer base to generate new ideas for innovative products, improve on existing products, and vote for the products that should be marketed on a constant basis. These companies rely strongly on their customers to create value and thus in the process aim to narrow the gap between consumer needs and the end product.

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A good example is Chicago-based t-shirt company Threadless, which outsources all t-shirt designs to its customers who then vote on the best designs, which are subsequently printed. The company has been one of the most innovative firms in the US.

More and more global organisations are incorporating user-driven aspects into their business strategies. These companies are recognising that in a society where consumers are interconnected and powerful, it is smart to integrate their voice into certain processes in the company. McDonald’s recently held a competition inviting fans to create new burger recipes that were eventually sold in their restaurants.

But one size does not fit all when it comes to how companies can derive value from a consumer community. These tactics don’t work for all products, or all companies. And now we have some insights into why.

User-driven value
In our research we found that consumers display a clear preference for products from user-driven firms over designer-driven firms only when the products are designed by users with whom they identify. In the case of users and product design, it all hinges on social identification.

Studies have shown that when people see others like themselves in positions of influence in a company, they experience a feeling of empowerment. This is a psychological phenomenon called basking in reflected glory. The theory is, even if you have not directly participated in anything, you could have, because the company has integrated people just like you.

Our research shows that this same phenomenon applies to consumers and user-driven product designs. Knowing people like themselves created these products leads consumers to identify with and thus express a preference for both product and company, even without having participated in the design of the product itself. In other words, consumers prefer products from user-driven firms when they feel they belong to similar demographics or social groups.

The effect is reversed when social identification is removed. If a company acquires the input of a group of users dissimilar to the broader customer base, a negative effect can be seen, where consumers prefer the products created by company designers than those of fellow and dissimilar product users.

But there are also other boundary conditions. Let’s think of the example of cars or perhaps more specifically, car brakes. Most car buyers do not have the expertise to design car brakes, have never seen car brakes designed, and do not know anybody who could design them. In such a situation, user-designed car brakes would have significantly less appeal, where users are going to question the competence of the person who designed the product, as well as fail to relate to the designer.

Another interesting finding to come from our research is that the effect is diminished when the user-driven firm is selective in its choice of user participants. If the firm is not open to the input of every user, but only a selected group of users, a feeling of isolation or social exclusion for the observing consumers greatly diminishes any positive effect.

Implications for companies
The takeaway from this is that managers should look carefully at their customer base and the expertise within it before choosing how to give their consumers a voice in their organisation’s processes. There are more ways than one of involving consumers.

Take the example of high-status, luxury brands. These companies would perhaps be wise to distance their consumers from the design process, where most consumers are not designers but rather aspire to the design expertise within the company, which is considered elite and high status. But
this does not mean that the company cannot engage in other ways with their customers. Companies can give power to consumers via social media or by, for example, inviting them to participate in advertising campaigns.

With products that are less complex or where the product’s consumers have considerable expertise in relation to the product, here we see room for involvement of users in the product design process and hence the creation of a positive effect of preference within the wider customer base. Coming up with software products is not easy, for example, but there are a great many people with expertise in programming. With less complex products, such in the categories of clothing, furniture, food, toys, garden products and so on, there is a great deal of room for user-driven input.

An effective tactic here is to use labelling to reveal the source of the design. Lego, for instance recently created a line of products labelled “created by Lego fans”, even inviting fans to vote on favourites and give feedback. In this way, the company entered a hypothetical relationship with their customers, making the products more attractive. Of course, whether consumer preference for products from user-driven firms under these conditions translates into hard sales is an entirely different question. The implications of these perceptions for sales is a question we intend to answer with our latest research project, on which we are collaborating with Japanese design company Muji. But one thing that seems certain for now is that empowering your customers by giving them a voice in some area of your business, inevitably has a positive impact on your brand’s perception.


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The relevance of innovating beyond technology

By Kevin Heij

Technological innovation may receive greater attention, but innovation covers more than technology. Whether the innovation has to do with management (think of the introduction of self-managed teams), co-creation with customers (for instance at Lego or in health care), or business model innovation (such as at DSM and Google), various types of non-technological innovation are also important opportunities for competitive advantage.

Although scholars are increasingly recognising the importance of various non-technological types of innovation, multiple questions about how they contribute to company performance are still largely unanswered. To begin to fill this gap, I started a series of studies five years ago, when I began my job as manager of INS COPE – Research for Innovation, a joint research consortium on social innovation from the Erasmus University Rotterdam, Maastricht University, TNO, Utrecht University, and University of Twente.

Four of these studies, which I covered in my doctoral thesis Innovating beyond Technology: Studies on how management innovation, co-creation, and business model innovation contribute to firms’ (innovation) performance, are based on survey data collected by the Erasmus Competition and Innovation Monitor. This monitor, co-founded in 2006 by two of my thesis supervisors, RSM’s Prof. Henk Volberda, and Prof. Frans Van Den Bosch, is an annual survey of 10,000 Dutch enterprises from a broad range of industries.

These projects convinced me even more that executives who think innovation should be left solely to the guys in the white lab coats are doing themselves a disservice. In fact, not only can non-technological innovations enhance firm performance, but they can also enhance the results of technical innovation.

Management innovation

Management innovations are changes in how managers perform their job that are intended to improve their firm’s performance. Indeed, such changes can have a profound impact on company performance. Various studies have found that management innovation is a source of competitive advantage that is at least as important as technological innovation. For instance, data from the Erasmus Competition and Innovation Monitor suggests that management innovation explains anywhere from 59 per cent and 79 per cent of a firm’s innovation success, much more than R&D (as an indicator of technological innovation), which comprises 21 to 41 per cent.

Management innovation is an emerging but still under-researched domain, particularly in its relationship with technological innovation. Scholars have various ideas about the relationship between both; technological innovation can enable management innovation; management innovation can enable technological innovation, and both types of innovation can have a combined, complementary effect on firm performance.

In one of the studies included in my dissertation, we show that management innovation enables a firm to realise more radical product and service innovations from its R&D investments. Higher levels of R&D investments face increasing marginal
returns on radical product and service innovations (exploratory innovations) and complementary investments in management innovation offset these marginal returns.

The transformation of higher levels of new technological knowledge resulting from these R&D investments into radical product and service innovations requires adjustment of and alignment with many complementary areas of knowledge and capabilities, such as production and marketing. Management innovation supports that transformation by smoothing over pre-existing managerial and organisational barriers in a way that makes it easier to integrate and utilise the new technological knowledge more efficiently.

In addition, new management practices (management innovation) can raise the number of incremental new product and service innovations (exploitative innovations), an increase that grows as investment increases. Novel management practices may contribute in their own way to greater utilisation of a firm’s existing knowledge base, for instance by streamlining the transfer of existing knowledge among various firm activities or by enabling new combinations of its existing knowledge base.

However, the larger the firm, the more the effect of management innovation on exploitative innovation moves from positive and linear to J-shaped. These findings suggest that larger firms need to overcome more fragmented initiatives compared to smaller firms when introducing new management practices.

**Co-creation with customers**

The increased pace of change and intensified competition has led many organisations to co-create with external partners to develop more product and service innovations. Co-creation with customers enables a firm to tap into the knowledge base of its customers, or to create new knowledge, and to strengthen its relationship with those customers. It is different from simply asking customers for their feedback, which has been shown to be a good way to drive incremental improvements but to hamper radical breakthroughs. Co-creation with customers, by contrast, can be an important source of competitive advantage.

Survey data relating to 356 Dutch health-care providers indicates that co-creation with customers (“relationship learning”) has an increasing marginal effect on exploitative innovation. Beyond a certain point, the two parties’ knowledge and experience have a larger degree of overlap that limits opportunities to gain valuable additional insights from each other. Firms can offset this increasing marginal effect by having a high degree of direct personal connections among members within the organisation (organisational connectedness).

This informal co-ordination mechanism within an organisation increases access of organisational members to additional knowledge on customer needs in order to further refine products and services (exploitative innovations). More internal alignment due to organisational connectedness also enables organisational members within a firm to obtain a larger amount of specific knowledge out of co-creation.
The relevance of innovating beyond technology (continued)

By Kevin Heij

Business model innovation
In today’s rapidly changing business environments, business model innovation is an increasingly important source of competitive advantage. Although scholars debate its finer points, business model innovation is generally defined as the introduction of a new or improved logic for how a firm creates and captures value. A company that innovates its business model can do so in two ways: replication or renewal.

“Technological innovation is not the only way for a company to think its way to a better future.”

Business model replication involves the re-creation of a successful model in which a firm leverages business model components and their interdependencies by developing and/or extending them within the framework of an existing model. This can be done over time, and in rather similar, but geographically different markets. Companies like IKEA and McDonald’s are known for this type of business model innovation.

Business model renewal involves the introduction of a mostly new business model and new complementary effects that go beyond a firm’s existing framework for creating and capturing value. A renewal model enables a firm to enter fundamentally new markets or to make an aggressive move in existing markets. It is a riskier process than replication and generally involves overcoming more challenges and barriers. However, not renewing the business model can put firm survival at even greater risk in the long run, as once-strong companies such as Kodak and Blockbuster can attest.

Both types of business model innovation contribute to firm performance, but my research found that the difference each kind can make depends to some degree on the level of dynamism of a firm’s business environment. Replication allows an organisation to become better at doing things that are similar to what it is already doing, but a major change in the firm’s external environment can reduce the value of doing something better than it did before. At that point, the model may begin to become outdated.

Business model renewal, by contrast, tends to contribute more to firm performance in environments characterised by intermediate and high levels of dynamism. In cases of business model renewal, firms face conflicting forces to adequately deal with the level of environmental dynamism. On the one hand, in more dynamic environments, a company may need to renew its business model more intensely to improve the firm’s fit with the changing environment. On the other, conducting business model renewal in more dynamic environments reduces opportunities to increase a firm’s profitability, because it becomes more quickly obsolete.

Competitive advantage
Although the dynamics of some of these non-technological types of innovation are somewhat subtle, they shouldn’t obscure the more essential point: innovation comprises more than just investing in R&D. In an era of relentless transformation, executives can no longer afford to leave innovation solely to the engineers. Technological innovation is not the only way for a company to think its way to a better future. Investments in management innovation, co-creation with customers, and business model innovation are not only valid but often also complementary ways to turn knowledge into a competitive advantage.

Kevin Heij’s doctoral thesis, Innovating beyond Technology: Studies on how management innovation, co-creation, and business model innovation contribute to firms’ (innovation) performance can be freely downloaded at http://repub.eur.nl/pud/7651/

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