



ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

▶ Making diversity policies work

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By Laura Straeter



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For generations, marketers have tried to get into the mind of the consumer. Now, using new brain imaging techniques, we’re tantalizingly close. The emerging science of neuroforecasting is still very young, but bit by bit, researchers are learning more about the connection between thinking – or more specifically, reacting – and doing.

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The purchase or receipt of gifts by consumers is an area loaded with intention and expectation and one that is highly influenced by the way in which such gestures are pitched. This should provide food for thought for retailers seeking to build up customer loyalty or for consumers seeking to repair previous errors. “Saying it with flowers” does not necessarily offer any guarantees.

Introduction



Diversity – at the heart of business success

In his article on p05, RSM's Dr Meir Shemla states categorically that: 'Managing diversity in organizations is one of the defining issues of our time.' Considering the significance of this, it's disconcerting to read in *The Global Gender Gap Report 2017*, published recently by the World Economic Forum, that in terms of gender equality, the Netherlands has dropped from 16th place in 2016 to 32nd in 2017.

More worryingly, the report states that globally, gender parity is shifting into reverse for the first time since the WEF began measuring it. Further, that it will be around 220 years before gender equality is achieved. With diversity being at the heart of organizational success, these figures should serve as a wake-up call to every executive charged with leadership responsibilities.

Diversity, aligned to gender, age, culture, education, experience and more, provides leaders with the wide-ranging insights and viewpoints they need to successfully tackle the many challenges they face, and to become the pioneers who reshape landscapes with inspiring new business models and disruptive innovations.

As a leading business school, with scholars who are themselves pioneers in many areas of management science, RSM understands the critical importance of diversity, and nowhere more so than in the realms of new knowledge and new value creation.

Indeed, the entire purpose of *RSM Discovery* magazine is to serve as a platform for sharing research drawn from across a diverse range of management disciplines that offers real, practical value for forward-thinking executives who understand the importance, or rather the necessity, of being one step ahead.

In line with this thinking, other articles in this issue explore the fascinating subjects of: CEO behaviour and whether it influences M&A activities in firms; how and why international banks should be regulated; using crowdsourcing as an innovative approach to deliveries; predicting group behaviour through neuroforecasting, and how insights into the psychology of gift buying and receiving can benefit marketers.

I am sure you will find them all to be of great interest and welcome any comments you might have.

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Making diversity policies work

By **Meir Shemla**

Managing diversity in organizations is one of the defining issues of our time. Most institutions try to promote the creation of a diverse, creative workforce, but unfortunately, even after several decades of work, how this is created is still very unclear. A more scientific approach is needed.

shared identity, and designed work-life benefits to help workers with non-work needs.

No single answer

Yet despite all that experience, no one has found a straightforward answer to the question of how to create a highly productive diverse organizational unit. A close look at these studies suggests that while people might like the idea of diversity, no single set of solutions seems to work on a consistent basis. This research suggests that realizing the promise of diversity isn't chemistry: you can't just mix the ingredients and expect you will spark the same desired reaction every time. Neither diversity training, affirmative action, nor work-life balance policies yielded consistent results.

However, we also believe that several bad management habits have made progress toward this goal even slower than it had to be. Specifically:



Most major Western institutions believe diversity is a good HR strategy. The general consensus among executives is that diverse organizations are more creative and more productive. Following this view, most enterprises aspire to become more diverse and more inclusive. Many make at least some effort to implement diversity-related policies through affirmative action, targeted recruiting, diversity training, work-life integration, mentoring, and other means.

Unfortunately, after our recent review of the diversity policies literature, my colleagues and I found that

organizations have even more work to do than they tend to imagine when it comes to creating high-performing diverse workplaces.

In our review of both the macro and micro literature in the major scholarly journals that touched on diversity since 2000, approximately 100 articles in all, my colleagues and I found that many organizations have pursued a variety of methods to try to make the workplace more diverse and more inclusive. They have recruited to meet specific ethnic or minority hiring targets, undertaken anti-bias training, organized employee-led resource groups on a

- Organizations often do not match their diversity practices with their organizational goals very well. For instance, they may aim to ultimately increase the performance of diverse groups, but then pursue diversity policies that are primarily designed to impact the representation of certain social groups in leadership positions. It is clear that initiatives designed to achieve representation goals are not necessarily the same as those designed to achieve performance goals, and vice versa (although the two may overlap and reinforce one another to some extent). ▶

Making diversity policies work *(continued)*

By **Meir Shemla**

- Often there is a mismatch between how organizations design diversity policies and how they implement them. Many factors come into play between the formal announcement of diversity-related initiatives and relevant organizational outcomes. The variance in how policies are actually carried out goes a long way towards explaining why they often don't work. To understand why initiatives do or do not work requires that these factors be carefully considered. Are the initiatives implemented as planned? Do implemented initiatives result in desired employee behaviours? Do the new employee behaviours produce positive organizational outcomes? And in each case, why or why not?

In general, managers tend to focus too much on popular programmes and too little on their specific goals and context. When initiatives are undertaken simply to satisfy shifting trends with no clear goal in mind, we should not be surprised to find that quite often very little is achieved. At the same time, in many cases diversity-related activities are implemented in isolation and, thus, inadequate attention is given to how new procedures might interact with the existing organizational culture or

with other HR policies already in place to affect outcomes.

Next steps

Most of these problems are correctable, and in varying ways, just require more thought about their diversity goals and programmes. More specifically, managers should:

- Think clearly about their goals. If the goal is simply to increase the numbers of a particular group, that's relatively easy to achieve, but don't expect numerical representation to make decision-making more effective or inclusive automatically. When contemplating any new initiative, it is logical to start by asking, 'What am I trying to accomplish?' In the diversity domain, relevant organizational goals come in two forms: representation and performance. Often diversity is defined in terms of representation – the extent to which members of under-represented groups are present in a workforce. And sometimes this is sufficient. But more commonly the issue of performance comes into play as well; to what extent and in what ways does enhanced representation improve organizational outcomes? Thus, in most

cases both types of goals – representation and performance – must be addressed by diversity-related initiatives.

- Try not to copy-paste diversity programmes. Our research suggests that no single policy works across all contexts. The diversity programme you adopt will depend on your goal, your organization, and your culture. People try to copy Norway's experience with executive boards, for example, but ignore the fact that Norway's unique culture and unique history mean that Norwegian programmes often can't be easily replicated. Policies must be tailored to the needs of the particular organization. In practice, solutions should be situation-specific depending on an organization's representation and/or performance goals and on its assessment of the employee behaviours most in need of change.

- Remember good design is one thing, but good implementation is another. It is well known that diversity-related (as well as other) initiatives promulgated at the top aren't always carried out as planned. Often this is because middle-level managers and front-line supervisors lack the ability, motivation, and/or opportunity to do what is expected. Gaps in ability, for example, may simply reflect the facts that managers are uncertain about what the organization is trying to accomplish and unclear about what is expected of them. Remedies here call for greater transparency and honesty regarding goals, and may also involve increased efforts to formalize diversity-

“The diversity programme you adopt will depend on your goal, your organization, and your culture.”

related strategies, as well as supporting policies and initiatives.

- Answer the question: 'Why should I?' Gaps between the design and implementation of diversity policies often boil down to concerns on the part of non-beneficiaries (eg, white males) that diversity-related initiatives will disadvantage their particular demographic group. In part, these concerns can be assuaged via extensive communication efforts that emphasise the positive performance effects stemming from enhanced diversity and inclusion. However, these efforts will bear fruit only to the extent that the organization has unwavering commitment to equal opportunity for all employees.

Meanwhile, back in the lab

Researchers in this field also need to improve their game. Although a significant amount of research has been conducted to try to understand whether particular diversity-promotion practices actually help reduce discrimination, increase managerial diversity, and enhance performance, the results are riddled with inconsistencies that limit our ability to compare the value of particular practices, their purposes and their effects.

In our study, we had originally wanted to organize research results by diversity practice type, such as targeted recruitment or diversity training, but we quickly realized that this would be a messy endeavour, in part because some studies relied on the organization certifying its own success while

others asked individuals to respond. The upshot is that despite nearly two decades of scholarship, we still have relatively little theory about the process to inform scholars about how to organize their findings.

Very few studies we reviewed looked closely at what kinds of diversity initiatives work and why, and fewer still at the impact one set of practices has on another. Micro-studies tended to look at programmes too narrowly without reflecting on their larger social impact and macro-studies tended to take too broad a view, often content simply to note the presence or absence of any kind of diversity programme. As a result, it is difficult to be certain which practices trigger which mechanisms under what conditions and for whom.

We urge future research to more carefully examine the different paths that link ability, motivation, and opportunity-enhancing diversity practice bundles to organizational outcomes, and to incorporate the measurement of more facet-specific rather than generic intermediary outcomes. At the same time, they need to develop a common framework that makes it easier to compare similar programmes or programmes dealing with similar issues.

Clearly, research like this is difficult, but it must be done if we are to have any chance of acquiring the information and insights we need for such initiatives to succeed. Diversity researchers need to do much more to understand the dynamics of discrimination in an organization and how those pressures can be defused. ■

This article draws its inspiration from the paper *A Multi-Level Process Model for Understanding Diversity Practice Effectiveness*, written by Lisa H. Nishii, Jasmien Khattab, Meir Shemla, and Rebecca M. Paluch. *Academy of Management Annals*, August 2017, annals.2016.0044. DOI: <https://doi.org/10.5465/annals.2016.0044>

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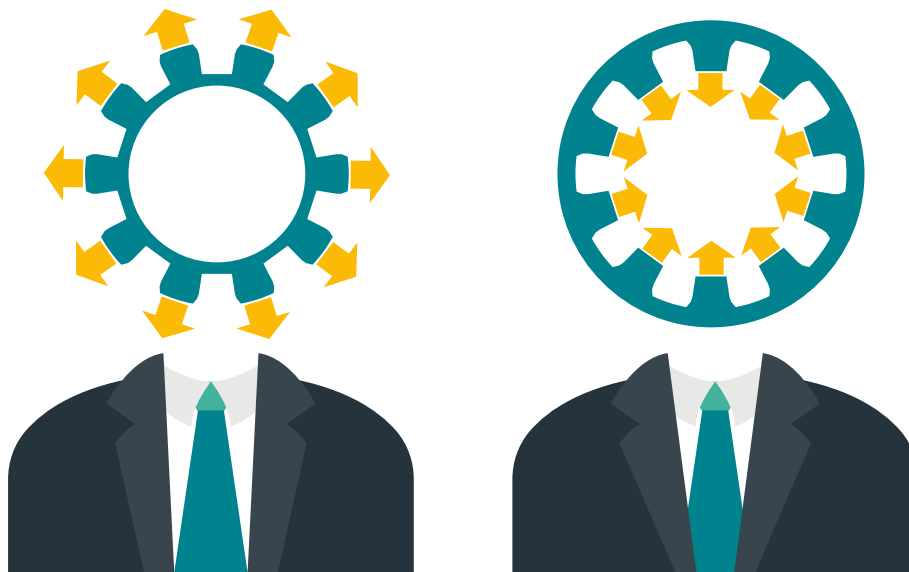
Research within the department has always been ahead of the curve, and pioneering faculty members work at the forefront of such "human" issues as diversity and leadership studies.

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CEO extraversion and M&A behaviour

Chris Murray talks with **Taco Reus**

In the past, through laudatory articles in the business press and scores of books dedicated to the accomplishments and “wisdom” of CEOs, the image of them having nearly full power over the actions and results of their companies began to emerge – and much of the attention was focused specifically on the CEO’s personality: how they behaved and communicated.



While corporate scandals have somewhat tempered the public’s belief in the superhuman CEO, the question is still very relevant today: how much does a CEO’s personality impact a firm’s behaviour? Taco Reus, endowed professor in global strategy at RSM, in collaboration with fellow RSM professor Erik Roelofsen, Shavin Malhotra of the University of Waterloo, and PengCheng

Zhu of the University of San Diego, sought to answer this question by exploring how a specific personality trait – extraversion – would impact a firm’s M&A activity. The results reveal a close link between CEO extraversion and M&A behaviour but not in all situations.

Prof. Reus explains that the team focused on M&A because M&A decisions are ‘consequential strategic de-

isions,’ and are also very uncertain – most mergers and acquisitions tend to reduce rather than add value to a company. ‘There’s so much uncertainty about whether acquisitions are a good or bad thing, that subjectivity and personality really become important in these decisions,’ he says.

Given the uncertainty involved, Prof. Reus says, the positively confident nature of extraversion seemed to make it the most ‘directly relevant’ of the “big five” personality traits recognized by psychologists (the others being openness, conscientiousness, agreeableness and neuroticism). ‘It’s well established in the psychology literature that extraversion is a very relevant personality dimension; it had already been related to leadership effectiveness,’ he says.

Extraversion misunderstood

Extraversion is not always well understood, says Prof. Reus. ‘Some people might think when you talk about all these extraverted people, they just want to party, and do crazy things,’ he says ‘but the literature really distinguishes between what would be called “impulsivity” from what we consider “extraversion”.’

Extraversion, he explains, actually consists of two elements: socializing to have fun or “to get along” – what psychologists call *affiliation* – and socializing to achieve something or “to get ahead” – what they call *agency*. As Prof. Reus explains: ‘Getting along is probably what most people think of when you talk about extraversion, but it has this other component that

is more about being assertive, being urgent, and being ambitious as well. This agency element may be what is particularly important in consequential strategic decisions.'

Another important facet of extraversion, and one that distinguishes this personality trait from others such as narcissism and hubris, is the focus on the *group*, he says. Whether they are getting along or getting ahead, the group and not just the self is what interests extraverts, Prof. Reus says.

For instance, 'Extraverted people tend to talk more, but that doesn't mean necessarily that they don't want to listen to anybody else; they often take a dominant role in the group, but that means hearing other voices as well,' he says. 'They are confident themselves, but they also want to instil confidence in the group as a whole, the confidence to make the consequential decisions, and do them together.'

Linguistic clues

One of the challenges of studying extraversion in the past was measuring CEO extraversion. RSM colleague, Prof. Roelofsen, was instrumental in applying a novel technique to gauge CEO personality through linguistic algorithms, Prof. Reus says. The team used linguistic algorithms developed in previous studies to analyse recordings of CEO quarterly calls to analysts, thus identifying the extraverted versus non-extraverted CEOs. For example, one of the linguistic cues for extraversion is the number of words used as well as the number of times plural first person (we, us) is used – as opposed

“...extraversion is a very relevant personality dimension; it had already been related to leadership effectiveness.”

to the narcissist criteria that includes the number of times the first person singular (I) is used.

'It is very difficult to get CEOs to fill in questionnaires, or to observe them over time,' he says. 'You can of course look at videos, and in a limited sense you can capture personality, but we were able to do it through a more large-scale technique. I feel this was an opportunity that we really were fortunate to have.'

Once the extraversion trait of the more than 2,800 S&P 1500 CEOs in the sample were identified, the team then used data from other sources to compare M&A activity to extraversion. The results showed that extraverted CEOs were more likely to engage in more and in bigger M&A deals than non-extraverted CEOs.

Prof. Reus says that extraverted CEOs, 'Are more prone to make these types of consequential strategic decisions. They want to do big things, and bring everybody on board as well – more so than less extraverted CEOs who might take a more cautious approach. Only if it's really necessary will they do these things.'

One important way that extraverted CEOs became involved in M&As, the research showed, was through partici-

pation on boards of directors. As Prof. Reus explains, 'Extraversion is often related to having a larger network. It turns out that actually extraverted people don't necessarily have more friends, but their so-called *instrumental networks* are larger.'

An instrumental network, he says, is a network with a purpose. Participation on boards of directors is a prime example of an instrumental network for CEOs. Through these boards, Prof. Reus says, CEOs get access from other board members (who are in many cases other CEOs or retired CEOs) to early and first-hand information about M&A opportunities.

Does personality matter?

While the research demonstrates the link between extraversion and M&A activity – and by extension the link between CEO personality and strategic firm behaviour – it also revealed that personality does not always dominate, Prof. Reus says.

For example, if a company cannot survive without an acquisition, it doesn't matter whether the less extraverted CEO of that company is uncomfortable with M&A: he or she has no choice. This is an example, Prof. Reus says, of what researchers call *situation-* ▶

“In highly competitive industries, less extraverted CEOs will also acquire, not because they want to do it, but because the industry tells them to do it..”

al strength. ‘Situational strength means that the situation really defines what is important, and what to do, and dominates over whatever the CEO would like to do,’ he says.

Situational strength in terms of M&A activity occurs in highly competitive industries, where CEOs have less discretion in what actions to take. As Prof. Reus explains, ‘In highly competitive industries, less extraverted CEOs will also acquire, not because they want to do it, but because the industry tells them to do it, and the analysts or the investors want them to do it; they are pushed to do it.’

Another element, according to Prof. Reus, that can influence the power of a CEO’s personality, but this time in a positive direction, is managerial entrenchment – in other words, the strength of the CEO’s position in the company. If for whatever reason, the CEO is well entrenched in the company – if the CEO of the company is also the company founder, for example – then that CEO’s personality will have a greater impact on the company’s actions, he says.

If the CEO’s hold on power is weak, on the other hand, then other forces, including the preferences of the board of directors, will be able to influence

firm behaviour. ‘You can think of it as governance strength, Prof. Reus says. ‘The more governance there is surrounding a CEO, the less they will be able to move on their own terms.’

In practical terms, this conditional result tells us something about a decades-old discussion in the management literature about whether one individual – the CEO – can or cannot influence the strategic direction of a very large corporation. The research indicates that it depends on situational strength: in weak situations, CEOs can have this unique impact, but in strong situations it’s the industry or the governance of the firm that constraints the impact.

It’s important to note that this study focuses on M&A decisions, Prof. Reus says. Less extraverted or introverted CEOs may prefer and be more effective in other types of strategic decisions or processes. ‘When a firm has to make really large consequential decisions, and you need to bring the whole company into the fold, that’s where the extraverted CEO really thrives,’ he says. ‘But the less extraverted CEO might be doing really well in a more stable and longer-term approach, and with all kinds of other strategic decisions.’ In any case, CEOs and other leaders

will do well to remember that, as this research demonstrates, CEO personality can impact strategic decisions and firm behaviour, he says. ‘Their personality matters in the decisions that they make, or how they approach decisions,’ Prof. Reus says. ‘That, I think, is a very useful thing for CEOs to understand.’ ■

The paper, *The Acquisitive Nature of Extraverted CEOs*, is written by Shavin Malhotra, Taco H. Reus, PengCheng Zhu and Erik M. Roelofsen. Article first published online, May 24, 2017, *Administrative Science Quarterly*. DOI: <https://doi.org/10.1177/0001839217712240>

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► RSM Expertise

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How to regulate international banks

By **Wolf Wagner**

The practice of banking supervision has been thrust very firmly into the spotlight since the great global financial crisis began to unfold over a decade ago. In that time it has been the subject of endless debate and much disagreement.

The failure of internationally active financial institutions, such as Lehman Brothers, and cross-border banks, such as Fortis, Dexia or the Icelandic banks, played a prominent role during the global crisis. The collapse and rescue of UK banks Royal Bank of Scotland (RBS) and Lloyds/HBOS followed shortly thereafter, leaving both banks effectively nationalised. While Lloyds is now completely privately owned, RBS remains around 72 per cent UK state-owned.

currency unions such as the Eurozone even setting up a banking union. EU authorities are pushing for the banking union to be complete by October 2018.

A paper that I co-wrote with Thorsten Beck of the Cass Business School at City University in London, sets out to analyse the main trade-offs in modern banking supervision. My aim in this article is to describe certain elements of our joint research and articulate our conclusions to a broader audience.

appropriate and effective banking supervision solutions.

A potential disinclination for institutions in one country to co-operate wholeheartedly with their counterparts in another country further muddies the waters. A simple rule of thumb is that the more cultural similarities there are between different countries the greater will be their mutual awareness and so their tendency to co-operate. By contrast, countries that are culturally dissimilar will tend to demonstrate a noticeably lower degree of interest in significant co-operation. Banks in northern Europe will have a natural affinity with their peer group, but less so with, for example, banks from Africa.

If all countries were identical, it would be easy to agree on the right structure for international regulation and implementation would be straightforward. However, countries differ in practice along various dimensions, which increases the cost of closer co-operation and convergence. Countries differ in their legal systems, which makes it hard to specify a common set of rules and standards, forcing cumbersome adaptation of general principles to local circumstances.

Heterogeneity can arise from a different reliance of economies on banks and from differences in market structures. This influences the cost of bank failures but also the ease with which banks can be resolved. Heterogeneity can arise from differences in preferences. Countries may differ, for example, in how they view the role of the government in the economy (one consequence being differences in state own- ▶

“...the regularity and growing size of bank collapses down the centuries suggests that failures – human or institutional – still happen.”

As a result of the events that combined to create the global financial crisis, there grew recognition that memorandums of understanding and supervisory colleges are not sufficient to deal with large and systemically important cross-border financial institutions. Something more had to be done. Closer co-operation between supervisors, especially in the resolution phases, is one of the solutions identified, with

The precise and proper level for bank supervision remains in question. The debate is very much coloured by the inherent complexity of the subject, whether at the domestic or the more challenging cross-border level. Adding further shades and nuances to the underlying complexity are the political constraints almost inevitably imposed upon those charged with identifying, formulating and implementing

How to regulate international banks *(continued)*

By **Wolf Wagner**

ership), focus on fiscal independence or with respect to their risk tolerance.

A question occasionally, and very justifiably asked, is: why is banking supervision needed? Surely the industry attracts staff with an inclination to deliver service to customers and to do so efficiently. However, the regularity and growing size of bank collapses down the centuries suggests that failures – human or institutional – still happen. Supervision is made necessary by a combination of factors. These include, but are not necessarily limited, to the following:

- A lack of competence by staff in attempting to carry out the duties for which they have been trained. Failures at the individual level may result in large costs for society.

▶ OPINION

'If we want banks to operate under the same rules and under the same supervision across our continent, then we should encourage all Member States to join the Banking Union. We need to reduce the remaining risks in the banking systems of some of our Member States.

Banking Union can only function if risk-reduction and risk-sharing go hand in hand.'

Jean-Claude Juncker, President of the European Commission, State of the Union Address (13 September 2017).

- Sheer size: as in the case of RBS, which grew from being a modest regional bank into the world's fifth-largest bank. The bank famously had to be rescued by the UK government following its ill-timed purchase of ABN AMRO of the Netherlands.

- The unique nature of the banking industry is a further factor. Businesses in any industry can and do go bust. Governments can usually allow such businesses to fail, with equanimity, because the adverse fall-out will largely be restricted to the company itself, its shareholders, its creditors and its customers.

Even when supranational regulation is desirable from a cross-country perspective, individual countries' incentives of moving from domestic to supranational supervision can vary significantly. This explains why the move to supranational regulation often falls prey to political obstacles. For instance, countries may be of a different size, which may result in a supranational supervisor adopting to a greater extent the preferences of the larger country. This may reduce – or even eliminate – the incentives for smaller countries to join.

Similarly, a country with an international financial centre might object to supranational supervision as this is likely to result in an outcome that forces the country to internalise a larger part of the externalities posed by its banking system.

The collapse of a major bank will however almost always cause systemic and social costs. Customers can face

the loss of their money as a result of a bank's determination to maximise profits. There are few governments brave enough to allow this to happen to retail depositors, however much faith they might possess in capitalism. Hence the close supervision by conduct authorities, central banks and supranational institutions aimed at reducing the chances of a systemic event.

Towards conclusion

Our main hypothesis is that a one-size-fits-all approach is neither desirable nor realistic, as benefits and costs from moving towards supranational solutions differ greatly across different regions. Instead, we propose that the extent to which the regulatory architecture becomes supranational should be determined at the regional level, and sometimes even be country- or institution-specific. In particular, it should be set according to two factors: the strength of cross-border externalities from financial instability, and the extent of heterogeneity across the countries in question.

The global financial crisis demonstrated beyond a shadow of doubt that many commercial banks needed to be better regulated, better supervised and better capitalised. They also needed to take on less risk. These considerations have not yet been fully addressed. At least Italy's banks, still burdened with non-performing loans, are at last facing up to reality and selling distressed assets where they can find a willing buyer.

But there is no room for complacency. All other issues aside, regulators

and supervisors, like army generals, have a long history of being backward looking rather than forward looking. They have a reputation for tackling the battles of history rather than the battles of the future.

Banks will almost inevitably push back against the constraints being placed upon them, perhaps arguing that 'this time it's different' (arguably the four most alarming words in the financial industry).

Banks also display ingenuity in finding ways round regulations. That, combined with a willingness to put history behind them, represents a danger. As more than one experienced

market commentator has observed in the past, there is only one institution more dangerous than a bank with too little capital, and that is a bank with too much capital. ■

This article draws its inspiration from the paper *Supranational Supervision: How Much and for Whom?*, written by Thorsten Beck and Wolf Wagner. Accepted for publication in the *International Journal of Central Banking*.

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► OPINION

'A complete Banking Union is essential for the future of the Economic and Monetary Union and for a financial system that supports jobs and growth. We want a banking sector that absorbs crises and shares risks via private channels, thus ensuring that taxpayers are not first in line to pay. Today we are presenting pragmatic ideas to move forward with risk sharing and risk reduction in parallel. We hope that these will be a useful food for thought for EU co-legislators to reach consensus on the remaining measures by 2018.'

Valdis Dombrovskis, Vice-President for Financial Stability, Financial Services and Capital Markets Union (11 October 2017).

"The global financial crisis *demonstrated beyond a shadow of doubt* that many commercial banks needed to be better regulated..."



Streamlining deliveries through crowdsourcing

By *Alp Arslan*

Internet shopping is taking an increasing share of the retail market, putting pressure on retailers to slash delivery times and to get products to customers quickly. This reduces operational efficiency and increases transportation costs for retailers with dedicated fleets of delivery vans. Using crowdsourced deliveries by ad-hoc external parties could offer a cost-effective solution.

The prospect of using mobile technology and crowdsourcing to reduce delivery lead-times is an exciting new way of dealing with this. The concept uses excess capacity on journeys that will take place anyway, to make deliveries of small packages, thus negating the need for an additional journey. In a recent paper, my colleagues Niels Agatz, Leo Kroon, Rob Zuidwijk and I investigated how much this could benefit retailers in practice.

Peer-to-peer

Recent years have seen the advent of peer-to-peer (P2P) platforms for transportation. Some focus on long-distance shipping; others on on-demand local deliveries. But one thing they have in common is that they all offer online solutions and mobile smartphone apps that connect delivery tasks (parcels that require shipping) with drivers willing to make a drop-off on a journey they were going to make anyway, in return for a small fee. Drivers pick up packages from a retail store, warehouse or dedicated pickup location, and deliver them to customers located along their route.

Instead of being dedicated delivery drivers, these drivers work on an ad-

hoc basis on their own initiative. They might also be willing to make deliveries simply to help others, and to support environmental improvements, and not just to earn some extra money. After all, they may also be helping to reduce vehicle emissions, and easing congestion by removing the need for an additional dedicated delivery vehicle. It also fits the current trend towards the “sharing economy”.

To ensure that all parcels are delivered in time, P2P delivery platforms can use a third-party service as backup when no ad-hoc driver can be found. And to ensure the reliability and trustworthiness of drivers, it might also use a feedback mechanism, let-

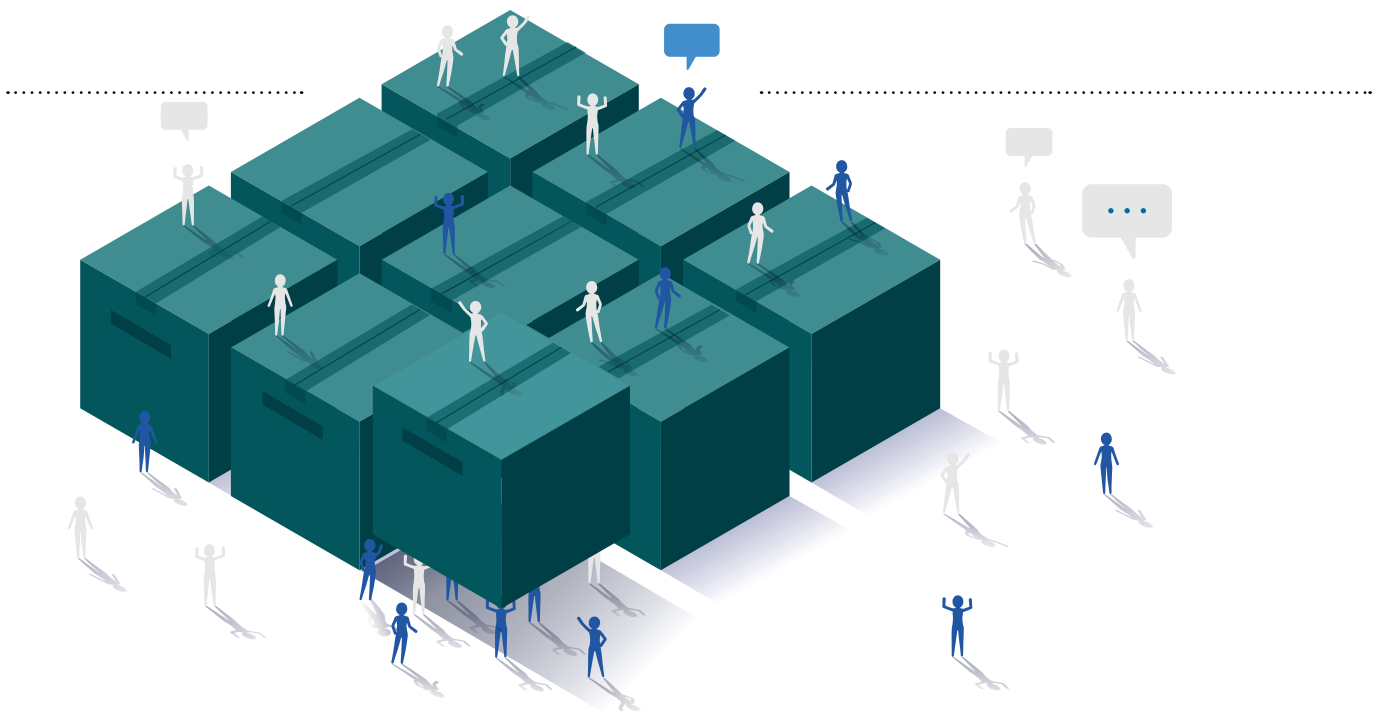
ting customers rate the service. The alternative to this is to vet drivers in advance, by verifying their licence, insurance and registration, or by doing background checks.

Crowdsourcing schemes already exist. Walmart recently began testing a scheme whereby it asks its in-store customers to drop off packages on their way home if it only added a few minutes to their travel time and was not an inconvenience. DHL also ran a pilot scheme in Stockholm called “MyWays” using local people to perform deliveries; and Amazon operates a similar service in Seattle called Amazon Flex.

Modelling the benefits

Crowdsourcing certainly works in theory, but we wanted to test the best ways to implement it in the real world. We wanted to find out what the most-efficient way is to send a parcel from A to B, making deliveries faster and cheaper. This meant converting the theory into an algorithm to create a virtual environment in which we could model various scenarios.

“The results suggest that using ad-hoc drivers can make the delivery much more cost-efficient, and can reduce system-wide vehicle miles, significantly reducing transportation costs.”



The solution we applied is a variant of the classic pickup and delivery problem (PDP) that aims to transport goods from an origin to a destination at minimum cost. Unlike the traditional model, however, we only used our dedicated vehicle fleet as a back-up option, to make deliveries that cannot be made by ad-hoc drivers, or if none were available. This is similar to ridesharing or carpooling, whereby individual travellers share journeys to save on costs. There does still need to be a dedicated fleet of backup vehicles, however. And therefore you also need to know how to use this in the most efficient way.

A crowdsourcing provider needs to assign parcel delivery tasks to drivers and to determine the best associated delivery routes. One problem is, however, that ad-hoc drivers vary greatly

with regard to how much time they are willing to spend and how flexible they are about making detours. Some may only want to make a small deviation to take a parcel on a trip that they were already making, while others may be willing to make multiple stops.

If a driver is matched with only one task, there is only one route – the origin of the driver and then the parcel, followed by the destination of the parcel and then the driver. If there are multiple pickups and drop-offs on a single trip, things get more complicated. There will be several feasible routes, and you need to figure out which is the optimal route sequence.

Since delivery tasks and available drivers arrive dynamically throughout the day, we also factored in an event-based rolling horizon framework, which repeatedly solved the problem

of matching tasks to drivers each time a new task or driver arrived.

Impressive savings

To quantify the benefits, we compared the performance of a crowdsourced system with a traditional dedicated delivery set-up. The results suggest that using ad-hoc drivers can make the delivery much more cost-efficient, and can reduce system-wide vehicle miles, significantly reducing transportation costs.

Using a combination of both crowdsourced delivery and a dedicated fleet is the most effective and practical solution. It could generate potential travel cost savings of 18 to 37 per cent when compared to using a purely dedicated fleet. The highest level of savings comes when drivers do not have to make detours to accommodate a pickup. The ▶

“Our results also proved that *time flexibility and stop willingness* on the part of the drivers has a strong impact on performance...”

best way to do this is to tap into the unused capacity in existing traffic flows.

Our results also proved that time flexibility and stop willingness on the part of the drivers has a strong impact on performance, with increasing flexibility improving cost efficiency. Moreover, you also need fewer drivers to do the same amount of work if each individual driver makes more stops, or if you combine several delivery tasks. And by using crowdsourced drivers in addition to their dedicated fleet means managers can also make extra savings by decreasing the size of the fleet, by as much as 18 per cent on average, we calculate.

One important thing that our results showed, however, is that you cannot always trust the availability of crowdsourced delivery as a stand-alone solution. Therefore, you will probably always need some form of dedicated vehicles in your resource pool, as cover in case no crowdsourced option is available.

Nevertheless, in the best-case scenario, a manager could save up to 20 per cent in costs. This offers flexibility as it would release budget and resources that could be spent on external costs such as accident insurance and incentives.

Future tasks

Our research only considered delivery costs, under the assumption that dedicated vehicles and ad-hoc drivers incur the same amount of unit cost. In future we plan to study other aspects, such as identifying the correct financial incentives to attract a sufficient crowd, and how you can minimise system-wide costs.

One thing we are now looking at is using only one driver on specific routes. If you allow the drivers to transfer parcels between themselves, you can create a web or a network of individual driver routes (like a relay system between nodes), so that no one has to extend their individual journeys, but the parcel still gets delivered as quickly as possible via the shortest distance possible.

To increase the efficiency on the crowdsourced side, you also need to keep the delivery drivers happy at all times, otherwise they may be less willing to work for you. Prioritising is therefore key. But we believe that if managers do this, it may even become possible one day to dispense entirely with the need for a dedicated delivery fleet. And that would take cost savings to another level. ■

This article draws its inspiration from the paper *Crowdsourced Delivery: A Dynamic Pickup and Delivery Problem with Ad-hoc drivers* written by Alp M. Arslan, Niels Agatz, Leo Kroon and Rob Zuidwijk (5 September 2016). ERIM Report Series Research in Management. DOI: <http://dx.doi.org/10.2139/ssrn.2726731>

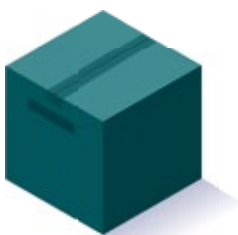
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Can neuroforecasting predict market behaviour?

By **Alexander Genevsky**

For generations, marketers have tried to get into the mind of the consumer. Now, using new brain imaging techniques, we're tantalizingly close. The emerging science of neuroforecasting is still very young, but bit by bit, researchers are learning more about the connection between thinking - or more specifically, reacting - and doing.



"...previous studies have found that brain activity can predict how much someone likes a product..."

Until recently, most of this work has focused primarily on predicting an individual's behaviour. In my latest study, with colleagues at Stanford University and the University of Michigan, we found that not only is neuroforecasting a useful tool for predicting individual behaviour, it may be even more useful for forecasting the behaviour of a group.

Earlier studies have found that neural responses in the nucleus accumbens (NAcc) and the medial prefrontal cortex (MPFC) are associated with certain kinds of subsequent judgments. For example, previous studies have found that brain activity can predict how much someone likes a product and which of two options they will choose. NAcc responses in particular have been used to predict choices from gambles to purchases to investments.

These studies did not, however, identify whether neural activity that predicted individual responses could be generalized to predict group responses. Here we wanted to see if we could use neural activity not only to predict individual choice but also to forecast group behaviour on Kickstarter, a popular online crowdfunding marketplace. We conducted two studies with 30 participants each, a main study and a follow-up study that repeated the experiment. The results of that second study supported those of the first.

In our first study, we recruited 30 right-handed adults, most of whom lived in Palo Alto, California. They were each placed into an MRI machine and ▶

Can neuroforecasting predict market behaviour? *(continued)*

By **Alexander Genevsky**

“...NAcc activity was a better predictor of project funding than people’s conscious statements.”

shown 36 crowdfunding appeals from the most recently posted documentary film projects on Kickstarter.

Other researchers have used crowd funding sites such as Kickstarter for various kinds of behavioural research, such as understanding the dynamics of personal networks or the motivations of project creators, but researchers had not yet looked at whether individual funders’ behaviour can be used to forecast a project’s chance of reaching its fundraising goal.

For each proposal, subjects first viewed a photographic image from a project page, then a screen depicting the remainder of the project’s text description. After reviewing the proposal, the subject pressed a button indicating whether he or she would like to fund the project. At the same time, we collected data about each participant’s reaction from the MRI.

On the basis of previous work in the field, we focused on two areas of the brain associated with funding decisions, the MPFC and the NAcc. We predicted that activity in both areas of the brain would forecast individual choices to fund but we hypothesized that activity in the NAcc, which is a part of the brain associated with pos-

itive emotions and reward, might forecast market outcomes better than activity in the MPFC – and possibly even better than the conscious thoughts of the brain’s owner.

Of the 36 projects reviewed in the study, 18 were eventually funded by groups of internet contributors, while the remaining 18 did not reach their funding threshold, and their appeal failed.

After the fundraising windows for these projects had closed, we compared what subjects had said they liked and wanted to fund with their neural responses. We found our test subjects couldn’t tell us or show us anything useful when it came to predicting successful crowdfunding campaigns. Neither their self-reported ratings of liking nor their perceptions of the likelihood of a project’s success performed very well. Overall, individuals’ responses aligned with the winners only 52.9 per cent of the time.

By contrast, a strong NAcc response aligned with winners 67 per cent of the time, regardless of the subjects’ mood. In other words, the subjects’ gut instinct, their neurological response, turned out to be a better predictor of

whether a project was funded than what they could tell us consciously.

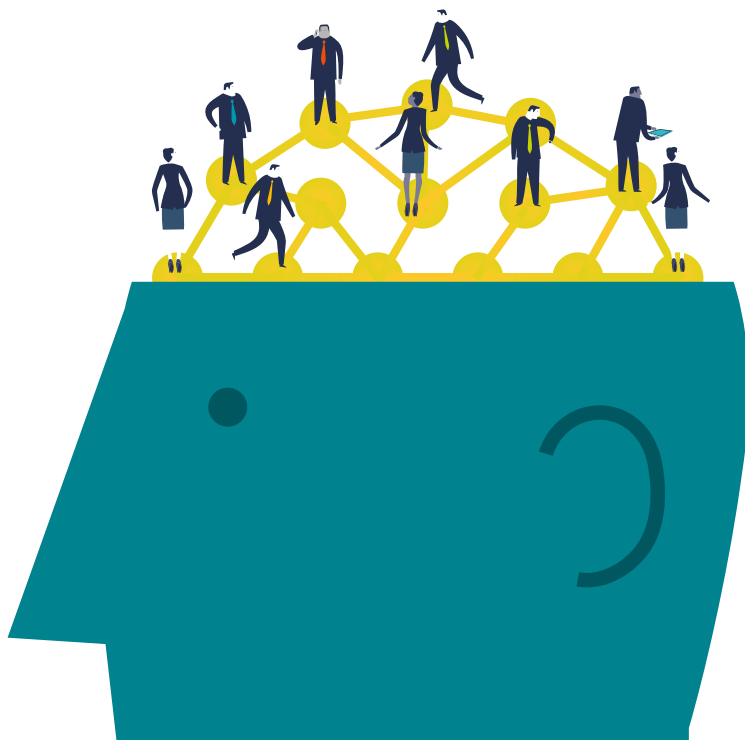
When we repeated the study, we achieved nearly the same results, indicating that NAcc activity was a better predictor of project funding than people’s conscious statements.

What you really want

Using the MRI, we were able to measure a basic neural response that they were either unable or unwilling to share – a response that they were not even necessarily aware that they were having, but which was nonetheless informative about future behaviour. Our theory about why this works is that we have basic emotional responses when we are first confronted with a choice. Subsequent thinking and reassessment only cloud the issue.

It’s similar to what might happen if I were to bring in a plate of warm cookies into a room: everyone might want one, but before they actually take a cookie, they will think twice. They might decide to pass, for instance, if they remember that they are trying to lose weight, or if they are going out to dinner and don’t want to spoil their appetite. But if we could measure their first neural responses when the plate of cookies arrived in the room, before all those other concerns came into play, we might be able to get a real sense of how appealing those cookies are.

But that’s just a theory. We don’t really know yet whether the part of the brain that sparks when it makes a crowdsourcing decision works in similar ways for other kinds of decisions. It might be that the NAcc is only put



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“...we are getting close to a time when *biologically based and neural measurements* will play a significant role in mainstream marketing.”

to work when comparing good things – like movies and cookies – but other regions might be involved when the choices are more negative, less emotional, or involve complex considerations, such as probability. Future re-

search will experiment with these variations to see if other parts of the brain take part in different kinds of decisions.

Whatever the exact mechanism, our results do suggest that neuroforecasting is likely to become an important tool for marketers and policymakers. I think we are getting close to a time when biologically based and neural measurements will play a significant role in mainstream marketing. In the short run, however, the more important aspect of neuroforecasting is likely to be the deeper insight it gives us into the complex mental and emotional process that goes into every choice – at least that’s what I think I think. ■

This article draws its inspiration from the paper, *When Brain Beats Behavior: Neuroforecasting Crowdfunding Outcomes*, written by Alexander Genevsky, Carolyn Yoon, and Brian Knutson. *The Journal of Neuroscience*, 37(36), 8625-8634, 2017. DOI: <https://doi.org/10.1523/JNEUROSCI.1633-16.2017>

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Do apologies and favours make for happy consumers?

By *Laura Straeter*

The purchase or receipt of gifts by consumers is an area loaded with intention and expectation and one that is highly influenced by the way in which such gestures are pitched. This should provide food for thought for retailers seeking to build up customer loyalty or for consumers seeking to repair previous errors. “Saying it with flowers” does not necessarily offer any guarantees.

loaded with intention. The customary Christmas bottle of wine is always happily accepted from a client with a view to the same client continuing to work with the giving service provider.

The hard-working freelancer may send luxury chocolates to a regular supplier as an extra reminder of the quality of service that they have already provided. The day that neither party continues such a tradition may be averagely regarded, and so the expectation created needs to be perpetuated.

Gift-giving involves a three-step process, but that does not necessarily guarantee 100 per cent success. Firstly, the giver “gestates” an idea whereby the thought of offering something is translated into a choice. From there, he or she then offers a gift in expectation of a positive response (or “prestation”). Finally, the recipient “reformulates”, meaning they consume the gift (commercial or personal) and decide how to react to the gesture.

Whilst this breakdown in the process, as described by Sherry (1983), may seem at first scientific, it is crucial in contexts where individuals may need to go through such a procedure with a particular objective in mind. The question is – who wins? As a recent study suggests, it is often the identity of the giver that can have significant bearing on the recipient’s desire to reciprocate.

Redressing the balance

The research in question focuses on the “relational equity” inherent in offering favours and gifts in the spontaneous act of doing someone a favour

Consumption is not an isolated phenomenon, but it can take place between friends or in a more commercial context. One thing is for sure. When gestures are made, either to apologise for mistakes or to do a favour for someone with whom one has a personal connection, there exists a careful thought process on the side of the giver to ensure that the recipient feels duly rewarded.

However, once such a transaction is placed in a more corporate context, the stakes are no longer the same. What retailers need to retain above all is the emotional minefield of consumer emotions and their potential reaction to gestures either given or received.

Individuals have offered gifts or favours for all kinds of reasons since time immemorial. Such gestures are



and in the attempt to apologise for harm done. This theory hinges on the extent to which people's consumption decisions are guided by relationships that are not balanced in terms of outcomes of both partners.

When receiving a favour, people might feel gratitude, pressured or even guilty and therefore pressured into making a positive gesture in return. In the former case, the research focuses on the effects of an imbalance that is to the consumer's advantage and emphasises upon the desire of the recipient to want to give something back.

The main discrepancy examined concerns the identity of the relationship (commercial or personal). In the latter case, people may feel guilty when they perceive that another person is angry with them, focusing on the responses to an imbalance that is to the consumer's disadvantage. The studies considered the negative influence of the relational inequity on the perception of the gift. The prime objective was to analyse the emotional reaction of consumers in order to figure out under what conditions such a gesture could offer some guarantee of success and when it results in a failure

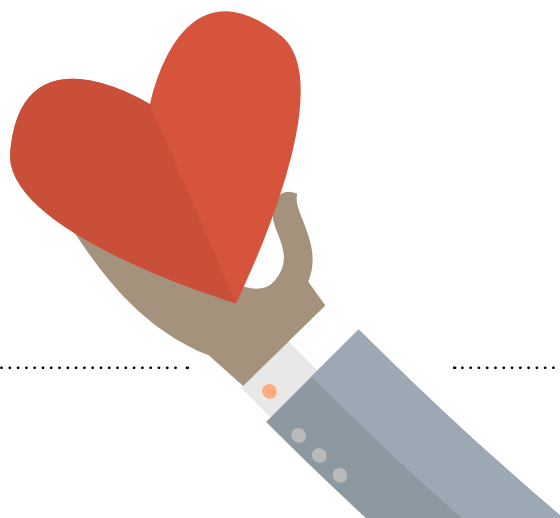
Commercial versus personal

In the first line of research, a selection of target audiences comprising US-based adults and Dutch university students responded to various hypothetical consumption situations: a lunch covered by a friend or a business associate in order to discuss finances; or a product given for free to a customer or a friend.

The key to each scenario was to test to what extent the recipient felt the need to respond. One might reasonably expect that within business relationships a balanced relationship is more important than in personal relationships and that one might prioritise smoothing over professional relations. However, this was shown not to be the case for consumers receiving a favour.

In all situations it was found that consumers felt guiltier towards a friend than a commercial partner and therefore also returned the gesture more often. Specifically in the commercial sphere, the relational inequity is especially pronounced as the giver has a far more obvious vested interest in ▶

"...it is often the identity of the giver that can have significant bearing on the recipient's desire to reciprocate."

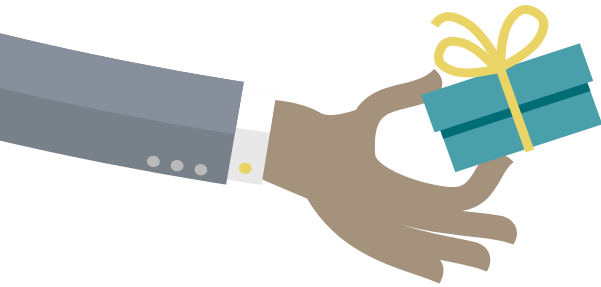


Do apologies and favours make happy consumers? *(continued)*

By **Laura Straeter**

favouring the customer. They are seeking to extend a business and maximise their profits.

Restoring an imbalanced relationship with either a friend or a professional associate is a fraught business but, ultimately, business is business and therefore commercial rather than personal gestures offer far fewer guarantees of success.



Calming the waters

Via a series of online experiments, an apology gift was compared to spontaneous gifts or other types of apologies. This second line of research emphasised that a gift given to apologise is rather ineffective in its aim to restore the relational balance and resolve angry feelings. Not only was a gift product liked less when it was received as an apology, it also showed that it was less effective than a spoken apology.

The surprising but very revealing statistical findings of the study underline the importance of careful considerations on the type of apology when it comes to calming the waters. When one is making a gesture in apology mode the results are generally ineffective, and especially so for gifts.

Exploring to deliver

Based on the results of the research conducted, retailers would be well advised to keep in mind the

role of imbalanced relationships in consumers' decisions.

First, it is suggested not to pitch "apology gifts" in their stores, given their apparent ineffectiveness. The products themselves are not in question but the response from recipients would suggest that "saying it with flowers" does not ensure the desired response from the giver.

Second, when it comes to using relational imbalance to the retailer's own advantage, it is advised not to heavily rely on favouring the consumers or clients. It might be recommended to follow the example of a number of companies that have positioned themselves as more friendly, responsible or charitable by, for example, contributing to a good cause. Although this friendly image has to be shown to be effective, the research presented would support this claim.

In short, retailers, and consumers need to explore all the avenues required to build relationships, as they are seemingly proving ever more difficult. ■

"When one is making a gesture in apology mode the results are generally ineffective, and especially so for gifts."



This article draws its inspiration from the PhD thesis *Interpersonal Consumer Decision Making*, written by Laura Straeter and published as part of the ERIM PhD Series Research in Management. It can be freely downloaded at [WEB https://repub.eur.nl/pub/100819](https://repub.eur.nl/pub/100819)

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