

INNOVATIVE BUSINESS

at BAYLOR



PROVIDING KNOWLEDGE FOR
BUSINESS PRACTITIONERS

SPRING 2013



BAYLOR UNIVERSITY'S NEW STRATEGIC VISION, PRO FUTURIS, INCLUDES THE UNIVERSITY'S ASPIRATIONS TO BE A COMMUNITY RECOGNIZED FOR TRANSFORMATIONAL EDUCATION, INFORMED ENGAGEMENT, COMMITTED CONSTITUENTS, JUDICIOUS STEWARDSHIP AND COMPELLING SCHOLARSHIP—"WHERE RESEARCH DISCOVERIES ILLUMINATE SOLUTIONS TO SIGNIFICANT CHALLENGES CONFRONTING OUR WORLD AND WHERE CREATIVE ENDEAVORS REFLECT THE BREADTH OF GOD'S CREATION."

Faculty at the Hankamer School of Business are directly supporting this vision by consistently producing compelling research, some of which is included in this issue of *Innovative Business at Baylor*:

- Brett Wilkinson and Jason MacGregor investigate U.S. taxpayers' attitudes about economic patriotism and tax evasion.
- Hope Koch and Dorothy Leidner explore the impact of social networking sites within the workplace.
- Jim West examines the effects of changing peer groups on student achievement.

- Matthew Wood proposes a classification framework comprised of five types of entrepreneurs. Our faculty will continue to produce and collaborate on research with lasting impacts on our world, and we look forward to sharing more research with you in future issues of *Innovative Business at Baylor*.

TERRY S. MANESS

Dean, Hankamer School of Business

THE IMPACT OF SOCIAL NETWORKING SITES IN THE WORKPLACE

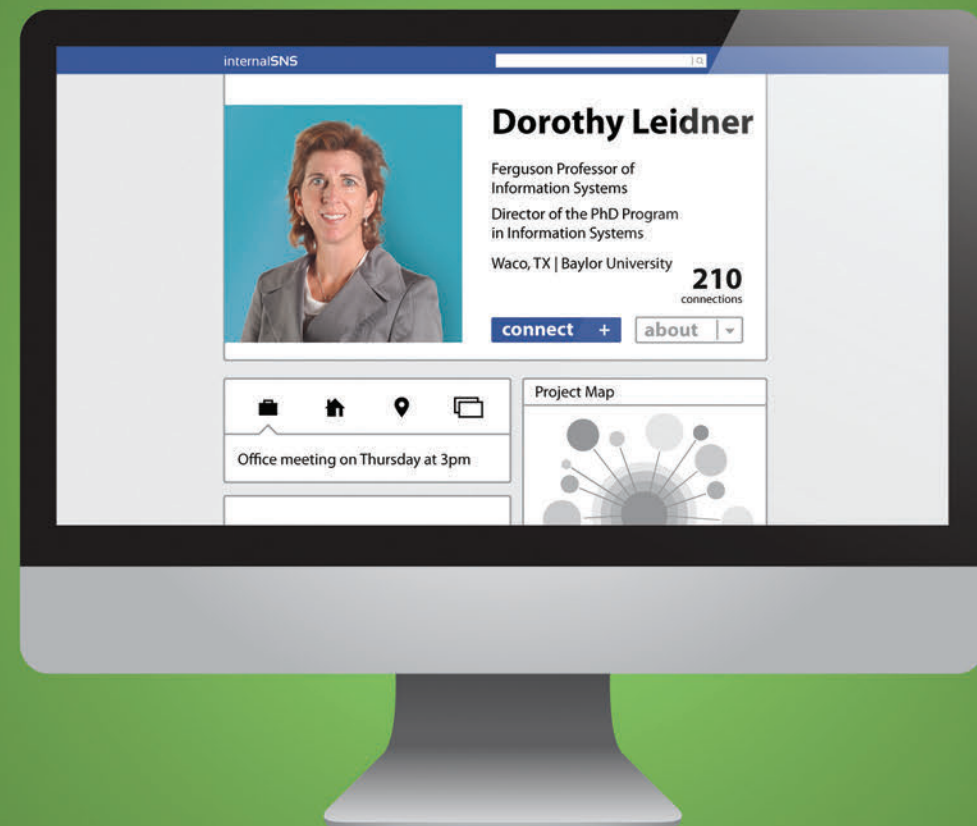
By allowing employees to participate in a work-sponsored internal social networking site (SNS), a company can improve morale and reduce turnover, according to a case study coauthored by **HOPE KOCH**, associate professor of Information Systems; **DOROTHY LEIDNER**, the Ferguson Professor of Information Systems and director of the PhD Program in Information Systems; and Ester Gonzalez, a graduate of Baylor's PhD Program in Information Systems who now teaches at Washington State University.

The study "Bridging The Work/Social Divide: The Emotional Response To Organizational Social Networking Sites" was published in the *European Journal of Information Systems* and looked at a financial institution's efforts to acclimate new employees into the organization. It also found that participation led to a greater sense of well-being and organizational commitment and better employee engagement.

"For millennials, mixing their work life and their social life via an online social networking site created positive emotions for the employees who use the system," Koch said. "These emotions led to more social networking and ultimately helped the employees build personal resources like social capital and organizational learning."

SNSs can have a positive impact on IT employees and their workplace, especially when the new employees are relocating to unfamiliar areas and need to build a network, assume highly technical jobs and become integrated into a large organization where it may be difficult to know where to go for help, according to Koch.

The study centered on a financial institution's efforts to reduce IT employee turnover by starting



a social and work-related online networking site. Under the supervision of executives, the IT new hires developed and managed the site's content. Since most new hires had moved hundreds of miles to start their new jobs with the institution, they initially used the social pages as an introduction to the community. According to Leidner, "The new hires evolve from being primarily consumers of the information in the social networking systems when they first join the organization, to becoming contributors to the social networking system after they have been in the company a while."

After a year or so with the organization, the more senior new hires began using the system to acclimate and mentor incoming new hires.

All study respondents worked in the institution's IT department and included new hires, middle managers and executives. With less than three years of experience, most new hires and interns were men between 21 and 27 years old. The middle managers and executives were baby boomers or members of generation X.

The internal social networking site helped the new hires build social capital in several ways. "The new hires build connections with co-workers that will guide them when feeling uncertain about a job task or provide them with the morale support needed when going through a stressful time while at work," Gonzalez said.

Ironically, middle managers, even though they wanted freedom from mentoring new hires, were less enthusiastic toward online social networking. "Middle managers felt isolated and annoyed because new hires were forming bonds and developing first-name relationships with senior executives that they had not personally experienced for themselves in their many years of service," Gonzalez said.

Senior managers, according to Leidner, were both positive and concerned. "The senior managers remained more circumspect about the SNS. They saw what they thought were potential benefits to knowledge sharing and collaboration, but yet they remained concerned that social uses would supersede work-related outcomes," Leidner said.

The SNS system also helped the new hires maintain relationships with one another, thus facilitating a network

of acquaintances that can do small favors and help build emotionally close friendships. Finally, by allowing the new hires to access information on the SNS, meet other new hires and develop and maintain relationships with their peer group, the financial institution was able to shift some of the burden of acclimating the new hires away from middle managers and human resources.

Despite the good outcome of this institution's experience, the study data suggest that organizations should move cautiously when implementing SNSs. "Before beginning an internal social networking initiative, organizations should consider analyzing how the system may impact both its users and non-users, paying particular attention to potential isolation of non-users and the negative stigma associated with SNS in the workplace," Koch said.



TAXPAYERS REVEAL ATTITUDES ABOUT ECONOMIC PATRIOTISM, TAX EVASION

Two non-native professors at Baylor made what might seem like a surprising discovery at an income tax preparation site in Waco, Texas. They found that patriotic individuals feel positive about paying taxes in support of their country. And although the taxpayers do not tie paying more taxes in absolute dollar terms to patriotism, they do perceive tax cheating as unpatriotic.

The research is the topic of a paper by **JASON MACGREGOR**, a Canadian, and **BRETT WILKINSON**, an Australian, titled "The Effect of Economic Patriotism on Tax Morale and Attitudes toward Tax Compliance." The article appeared in 2012 in *Advances in Taxation*, a journal that specializes in academic articles about federal, state, local and international taxation.

The study of citizen beliefs about taxation and economic patriotism, which the paper defines as "the coordinated behavior of consumers and businesses to make decisions to benefit their national economy," took shape over several years and included at least two U.S. presidential election cycles.

"My colleague and I were intrigued by the notion for years, and we also heard it discussed in presidential debates," said MacGregor, an assistant professor of Accounting.

Pre-election oratory centered on whether people have a patriotic obligation to pay higher taxes to meet the needs of the country. In the most recent campaign cycle, President Obama continued to talk

about a "new economic patriotism" in advertisements and speeches.

"It has been a high-profile discussion for quite a while, and it is an interesting topic to explore," said Wilkinson, associate professor and the Roderick L. Holmes Chair of Accountancy. "Does economic patriotism really translate into a willingness to pay higher taxes, or is it only something politicians talk about?"

To find the answer, the two professors studied previous research and designed a simple survey. With permission from a Volunteer Income Tax Assistance (VITA) site, they administered their one-page, two-sided questionnaire to taxpayers who had just left the site. More than three-fourths of the people they asked, 163 of 200, successfully completed the survey. Respondents were mainly low- and middle-income people who went to the VITA site to get free income tax help.

The researchers attribute the high response rate to the simplicity of the survey and the incentive of a candy bar or a soda, which people enjoyed after waiting in line to get their taxes done. No one could take the survey until after getting help with his or her tax return. This was to avoid the appearance that the IRS was seeking taxpayer response.

Previous research in non-tax areas led MacGregor and Wilkinson to expect taxpayers' positive attitudes toward paying taxes to support their country. But the intensity of survey takers' responses did

surprise the researchers, especially since opposition to taxes often appears virulent.

"The effect of economic patriotism was more pronounced than we thought it would be, given the negative views often associated with paying tax," Wilkinson said. "Patriotic taxpayers definitely viewed tax evasion by corporations very negatively."

The research will have widespread applications. Professors who teach classes about taxation will be interested, as well as policymakers who write tax law. The IRS could also benefit. "If people act in ways consistent with economic patriotism, the IRS may be able to increase compliance by emphasizing patriotic themes in its literature," Wilkinson said. In his undergraduate- and graduate-level taxation classes, he will use the research to illustrate what motivates decision-making when people pay taxes, and what motivates policymakers.

The professors are continuing to research attitudes toward taxes. One project near completion studies whether tax preparers are influenced by patriotism or by the best outcome for their clients. The professors are also working on a study of Canadian tax preparers to see if their attitudes are similar to those in the United States.

The professors' Canadian and Australian backgrounds give their research an interesting perspective, said Wilkinson, a U.S. citizen for two years. "It helped us bring an extra dimension to the research."

BRETT
WILKINSON

JASON
MACGREGOR



A TALE OF GOOD RESEARCH, STRONG THEORY...AND HUMAN NATURE

JAMES WEST

THE IDEA FOR IMPROVING THE SCHOLASTIC PERFORMANCE OF LOWER-ABILITY STUDENTS AT A PRESTIGIOUS MILITARY ACADEMY SOUNDED EXCELLENT TO **JAMES WEST** AND HIS RESEARCH PARTNERS. THEY HAD STRONG RESEARCH BEHIND THEM THAT SUGGESTED SUCCESS. THEY HAD THE SUPPORT OF THE U.S. AIR FORCE ACADEMY (USAFA), AND AN ENVIRONMENT IN WHICH FRESHMEN ARE CONTROLLED. ALSO, WEST WAS TEACHING THERE.

The researchers drew up a careful design. They randomly assigned 2007 and 2008 incoming freshman students to peer groups with varying levels of ability. Their ultimate goal was to reduce the Academy's 20 percent scholastic probation rate.

The cost of the projected improvement? An attractive, fat goose egg.

In theory the project should have soared. But well-formed theory crashed hard into cold reality. Theory lost. Human nature prevailed. Or as West puts it, chuckling, "People have a mind of their own."

"We were wild-eyed and optimistic," West said. "We were sure we were going to improve the grades of the lower-ability folks. What we wanted to do was go in and change these groups slightly and drastically reduce the number of cadets on academic probation, and be heroes."

West, now a Baylor professor, says he and his research colleagues, Scott Carrell of the University of California-Davis, and Bruce Sacerdote of Dartmouth, were "dumbfounded" by the results. Still, West is sanguine and he and his colleagues are making lemonade from lemons.

The first sip of lemonade is a published paper. Although writing about research that fails to hit its intended mark is rare, an editor of the prestigious journal *Econometrica* invited them to submit after hearing a presentation by Carrell. The result is "From Natural Variation to Optimal Policy? The Importance of Endogenous Peer Group Formation."

"We felt very blessed to get into the journal," West said. *Econometrica* has a strong reputation for premier technical research and, as West puts it, "panache."

THE EXPERIMENT

West, holder of the W.H. Smith Professorship in Economics, arrived at Baylor in 2011 from the USAFA, where he was a civilian professor of Economics. He, Carrell and Sacerdote believed if mixing cadets of differing performance levels to raise GPAs would work anywhere, it would be most likely to succeed at the Academy.

When Air Force Academy freshmen arrive, they normally go into one of 40 military squadrons with about 32 freshmen in each squadron. For the "endogenous group" study, half of the arriving cadets from 2007 and 2008 went into randomly assigned squadrons as freshmen normally do.

The other half went into groups designed by the researchers to maximize the academic achievement of the students in the lowest third of the predicted GPA distribution. Thus, low-ability students went into squadrons with peers who had scored high on the verbal portion of the SAT.

To engineer this, the researchers obtained a list of class members. They determined into which squadron each student would go. The project was a secret, West said. "If any knowledge had slipped out, it would have ruined the experiment."

West had good reason to believe in success. Previous research shows that if low-performing students spend their spare time with students who have SAT verbal scores one standard deviation higher, that correlates to raising GPA by about half a letter grade. "That's a large effect—huge," West noted.

The "endogenous groups" the researchers describe in their paper are small circles of five or fewer friends within a squadron. "What we mean by 'endogenous' is the process of selecting the smaller group from within the larger group," West said.

Because they were certain the experiment would work, the researchers wrote an early draft about the project. "Raising achievement" was in the original title. Notably, the paper has gone through at least half a dozen different titles since.

The researchers used the Air Force Academy because West was a faculty member and because they saw the military institution as "the ideal environment" because of standardized classes and limited social contact of freshmen outside their military squadrons. In the final rewrite of the paper, the editor pushed the collaborators beyond the issue of an unsuccessful experiment to whether or not such an experiment could ever succeed. The thinking was, "if an experiment like this should have worked successfully, it should have worked at the Academy," West said.

LESSONS LEARNED

One of the most important lessons coming from the project is the difficulty of explaining changing behavior. But the *Econometrica* paper does not discuss that idea much because the researchers did not want to stray far from their field of economics. Still, it's an important lesson.

"Coming from all the big experiments that have happened in this country in the last 40 or 50 years is the idea that if we can change peer groups, we can change achievement," West said. That belief supports activities like student busing and institutions like private schools. "We wanted to design an experiment that could carefully measure the effect of changing group peers upon student achievement. We had a clean experimental design. We could not conceive beforehand what could possibly go wrong. But people can undo what you intend."

This apparently is true even when the intentions are backed by good research. For example, in the field of economics, peer effects—the influence of peers on others in the group—has been an active subject for over 10 years. Sacerdote published the first major paper on the topic in 2001.

"We knew that substantial peer effects existed at the Air Force Academy," West said. "So we estimated that if you were in a squadron that had smarter people, you would do better. So what if we deliberately tried to surround lower-ability people with lots of smart kids—would we boost their performance? It's a natural question."

The researchers forecast that on average, the experiment would raise GPAs by .055—just large enough to be able to measure the increase if it existed.

"As we have gotten deeper into it and others saw our presentation, we are wondering if it can be done," West said. "You can't raise the GPA of lower-ability cadets by surrounding them with smarter ones. That was the big-picture takeaway. If they have freedom to choose whom they want to study with, we surround them with smart study partners and they choose not to study with them, there is not much else we can do. It appears it is not going to work."

Or as the paper puts it, "We conclude that social processes are so rich and complex that one needs a deep understanding of their formation before one can formulate optimal policy."

The experiment's failure did not stop the research, however. West and Carrell, who formerly was a military professor at the Academy, have produced nine or 10 coauthored papers. The experiment continued through the cadets' senior year, and the collaborators have plentiful data. "This paper deals only with what happened in the cadets' first year," West said. "We can look at longer-term effects."

TAKING AN ANTHROPOLOGICAL APPROACH TO CATEGORIZING ENTREPRENEURS

MATTHEW WOOD



WHEN **MATTHEW WOOD** THOUGHT ABOUT WHAT MAKES AN ENTREPRENEUR UNIQUE, HE OFTEN ADOPTED THE SAME STEREOTYPES AS EVERYONE ELSE. THAT IS, THINKING OF ENTREPRENEURS AS DRIVEN, TYPE-A PEOPLE WHO ARE IN BUSINESS TO MAKE AS MUCH MONEY AS THEY CAN. BUT IN REALITY, HE KNEW THAT WASN'T ALWAYS TRUE.

"My colleagues and I started talking about how our interactions with entrepreneurs in everyday life didn't support that," said Wood, an assistant professor of Management and Entrepreneurship. "When you walk into some entrepreneurs' businesses, they are neat and clean, some are chaotic. We started noticing how really different they are."

Their casual observation led to Wood; Bryan Stinchfield, assistant professor of Organization Studies at Franklin & Marshall College; and Reed Nelson, professor of Management at UNINOVE; to begin researching.

"In research of entrepreneurs, they are often put into one homogeneous group that assumes the reason they go into business is to make lots of money," Wood said. "But we felt there was a lot more variance, so we started looking at this from a more anthropological approach."

Using the guiding principles of anthropologist Claude Levi-Strauss, the researchers began developing categories of entrepreneurs based on their observations and on the self-perceptions of the business owners. After interviewing and observing 23 entrepreneurs, the team developed five types of entrepreneurs, differentiated by how they define success, what they feel are their limitations and other observations.

"There is a lot of variability, and much of it is a perceived identity thing, but we did find five different types," Wood said. Their findings were published in the April 2012 issue of *Entrepreneurship Theory and Practice*.

ARTIST

The first type identified by the researchers was artistic. "Like all entrepreneurs, artists are independent," Wood said. "But it's not just that they don't want to be told what to do. Their ventures represent personal freedom to them. And they definitely aren't in it to make money."

Artists are limited only by their own imagination, and their actions aren't at all dictated by the market. Success, to an artist, was often defined in staying true to one's self.

CRAFTSMEN

The second group, craftsmen, has some similarities to the art group, but are more structured.

"Craftsmen or tradesmen have certain ways of doing things, and the end product is extremely important to them," Wood said. "They usually have very tidy workspaces and take very good care of their tools. They tend to feel that their work reflects their training and heritage."

One subject told the researchers, "The whole difference between being a craftsman and being just another slack-worker out there is that your trade comes first. Your work is always impeccable."

Craftsmen are also not in their professions to make lots of money. For many, client relationships and reputation are large motivations. One subject summed up the thinking of this group by telling researchers, "My goal is to make a special wine, not to be the biggest winemaker."

REFINING CRM BY LEVERAGING DATA

Although companies have engaged in customer relationship management (CRM) for years, **MORRIS GEORGE**, assistant professor of Marketing, is working to maximize the effectiveness of their efforts.

Most recently, he coauthored "Maximizing Profits for a Multi-Category Catalog Retailer," which has been accepted in the *Journal of Retailing* and explores the impact of catalog mailing in order to suggest an optimal multi-category catalog mailing policy.

"My research is mostly in the customer relationship area," he said. "U.S. companies send out about 12.5 billion print catalogs with only about a 4 percent response rate. Because of that, my work mainly involves

using customer level data to build a statistical model integrating the customer's purchase probability and purchase amounts with the firm's mailing efforts."

George initially worked on problems relating to retail businesses, such as identifying customers for cross-selling. He has worked on extensive databases to develop one-to-one strategies and build models that allow businesses to effectively connect with their markets.

"Our study showed that implementing the optimal catalog mailing policy we proposed could help firms achieve 38 percent more Customer Lifetime Value

(CLV) as compared to the current catalog mailing policy of the retailer," George said. "In a nutshell, we came up with a model to send the right catalog to the right customer at the right time."

George's future research topics include how to increase the frequency of donors' donations, such as how one-time disaster donors become repeat donors, which single game ticket buyers are likely to become season ticket holders, and how marketing impacts nonprofits' performance.

ENGINEER

Engineers are the third group identified by the researchers and were the most "traditional" of the groups.

"Engineers are always looking for ways to increase efficiencies, finding the newest methods and best plans," Wood said. "They are the ones who make the most money, and they are proud of the way they run their businesses."

Engineers pride themselves on efficiency, not only because it increases their earnings, but also because it is a trait that they value. They also tend to pride themselves on lessons learned from previous experiences.

"All of the companies that I worked for failed, and so I started learning," one subject told the researchers. "First, what I learned was that none of the managers cared about me or any of the other employees. They had no people skills and were all programmers. Second, I learned the companies failed because they were poorly managed. So I caught the religion of management." In the engineering group, entrepreneurs might feel limited by standards and codes.

BROKER

Brokers make up the fourth group. "Brokers are the 'buy low, sell high' group that we tend to think of as the 'whatever it takes' type of entrepreneur," Wood said. "This group is all about making money. That is the way they identify their own success."

The market drives every aspect of their behavior, so those in the brokerage group pride themselves on staying very updated. They are concerned with client relationships only to the extent that they are profitable, and feel limited only by money and market conditions.

"It's the easiest thing in the world," one subject said. "You buy things and you sell them for more than you buy them for."

BRICOLEUR

The final group is bricoleurs. "This is the group that operates with only what they have on hand," Wood said. "They often have stockpiles of what appears to be junk, but they pride themselves on using and combining those resources in unique ways and problem solving from just what they have."

Entrepreneurs in the bricolage category define success by "making it work" by any means and without regard to a timeframe. They are limited only by the items they have on-hand. Workspaces for bricoleurs is usually unorganized and cluttered. Codes and regulations have little or no impact on this group, not because they want to break the rules, but because they do not consider them important in their quest to making something work. Legal and social conventions are not a part of the business. However, researchers discovered that bricoleurs did have a keen sense of their market niche, and exactly how much their customers would tolerate of their unusual practices. Money is not a motivation for this group.

Wood is very excited about where this research could lead and the ways it may shape future research.

"Prior to this, we talked a lot about what makes entrepreneurs different from non-entrepreneurial business people," he said. "But we assumed they were one big group. But it only makes sense to talk about them as a group if what they define as success is the same. Now we know that they are not one, but five distinct groups. We need to spend more time talking about the differences between entrepreneurs. It's a much more useful endeavor."

Wood has already put his research to work in the classroom setting. "It broadens students' perspectives about looking at success," he said. "It forces them to put aside the idea that entrepreneurship is all about making money, and take a closer look at what gives people a sense of success, of who they are and what they want to achieve. I think it's an exciting step in this growing field."

Produced by Baylor University's Hankamer School of Business

Writers: Barbara Elmore, Frank Raczkiwicz, Courtney Roberts and Franci Rogers

Editor: Kristin Todd Stires

Associate Dean of Research and Faculty Development:

Cynthia K. Riemenschneider C.Riemenschneider@baylor.edu

baylor.edu/business/research



100% Recycled Paper

INNOVATIVE BUSINESS | at BAYLOR

COMING SOON...A NEW HOME FOR BAYLOR BUSINESS



At its February meeting, the Baylor University Board of Regents approved fundraising for a new 275,000-square-foot business school building that will expand the school's size and reach by nearly 40 percent. The architectural design for the new business school building features a highly corporate and sustainable business environment, including a centerpiece atrium that will showcase some of the school's signature classrooms, such as the Southwest Securities Financial Markets Center. The design also includes a large 350-seat auditorium to accommodate guest lectures and special events, and a variety of classroom spaces that will fully incorporate the latest classroom technology for collaborative learning, innovation and problem solving. The project cost is estimated at \$100 million. The current Hankamer-Cashion space occupied by the business school will become available for other academic needs on campus, benefitting students across disciplines.

"We are delighted that Baylor Regents have authorized fundraising for this exciting new project," said Terry Maness, dean of the Hankamer School of Business. "We have so many extraordinarily successful and generous business school alumni with whom we have spoken over the years about a new building for our expanding assortment of top quality and innovative business programs. We are eager to share this good news and to work with them, and with all those who support our distinct mission, to help bring this dream to reality."



INNOVATIVE BUSINESS | at BAYLOR

HANKAMER SCHOOL OF BUSINESS
One Bear Place #98009
Waco, TX 76798-8009

BAYLOR
UNIVERSITY



NON-PROFIT
ORGANIZATION
U.S. POSTAGE
PAID
BAYLOR
UNIVERSITY