

SPRING 2012

R.O.I.

RESEARCH INSIGHTS FROM UNC KENAN-FLAGLER

Exploring trends and issues that affect today's business environment, from The University of North Carolina's Kenan-Flagler Business School.

FEATURE

Emerging Market Firms Don't Have a Plan to Create the Next Global Brand.
THEY HAVE EIGHT.



Emerging Markets: Research Insights from UNC Kenan-Flagler

The growing importance of emerging markets is undeniable. Understanding what those markets mean for investors, marketers and managers is the focus of this issue of *R.O.I.*, which shares research insights from the University of North Carolina's Kenan-Flagler Business School.

Faculty at UNC Kenan-Flagler are engaged in a variety of research with direct applications in the arena of emerging markets—branding, finance, accounting, supply chain issues and more. We encourage you to contact us if you would like to know more about how we bridge our professors' expertise and rigorous research with the challenges faced by business leaders.

We welcome your reactions to and insights about these articles. Please feel free to contact the professors directly (their email addresses are listed) or visit www.kenan-flagler.unc.edu/ROI/.

R.O.I. is one way we share our faculty's research with the business community; there are, of course, many others. For example, we host an annual research impact conference, "The Next Generation," that will focus on "Global Private Investing: Navigating Complexity, Maximizing Returns" on Dec. 6-7, 2012. Thought leaders from industry and academia will exchange ideas and discuss issues at the conference, hosted in partnership with the Frank Hawkins Institute for Private Enterprise and the UNC Center for International Business Education and Research (CIBER) and the Center for Excellence in Investment Management. For more information, please contact Julia Kruse, CIBER executive director, at krusej@unc.edu or finance professor Greg Brown at gregwbrown@unc.edu.

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Emerging Market Firms Don't Have a Plan to Create the Next Global Brand. THEY HAVE EIGHT.



Jan-Benedict E.M. Steenkamp is the Knox Massey Distinguished Professor of Marketing and area chair of marketing at UNC Kenan-Flagler. jbs@unc.edu



First Japan. Then South Korea. Which country will be next?

Quick! Which brand sells more major appliances by retail volume than any in the world? It's the same one that had more than \$20 billion in sales in 2010, marketing products such as dishwashers, microwaves and washing machines in more than 165 countries. Earlier this year, the company had one of the largest exhibition spaces at the Consumer Electronics Show in Las Vegas. It's been an official sponsor of the National Basketball Association since 2006.

If you guessed Whirlpool – or General Electric or Samsung – you'd be wrong. Rather, the company in question is Haier, a Chinese brand that, while known in the business community, remains unfamiliar to many American and European consumers. And yet Haier, which less than 20 years ago was a nearly bankrupt state-owned enterprise, is now seeking to become one of the first names that buyers in the developed world think of when purchasing their next stainless steel refrigerator or big-screen HDTV.

It won't be easy. Companies that hail from emerging markets, such as Brazil, Russia, India and China, face many obstacles when marketing to Western consumers. The countries from which they hail – particularly China – are often associated with poor quality or unsound environmental practices. They generally don't have the marketing talent and leadership

experience in place to build powerful global brands. And many don't understand what Western consumers want or the kind of emotional relationship they have with the names they choose to buy.

Consider, for instance, that while there are more than 60 Chinese companies on the list of the Fortune 500, which ranks the largest global companies by revenue, not one name from China appears on the latest ranking by the agency Interbrand of the 100 best global brands. Meanwhile, the percentage of European consumers who could spontaneously recall major Chinese brands, according to a study by the consultancy Calling Brands, was remarkably low, ranging from just 2 to 7 percent.

As a result, the conventional wisdom has long been that these companies won't be a threat to existing global powerhouses. "The top leadership of corporations in the West grew up in a world in which their competitors were all very well-known," said Jan-Benedict E.M. Steenkamp, the C. Knox Massey Distinguished Professor of Marketing at UNC Kenan-Flagler. Because of that, Steenkamp said, many CEOs, marketing practitioners and business school students believe that a poor perception of products from these countries, combined with a lack of marketing experience, will doom such brands from becoming global players.

But Steenkamp and his collaborator, London Business School marketing professor Nirmalya Kumar, think differently. In their upcoming book, “Brand Blowback: How Emerging Market Brands Will Go Global,” expected to be published in early 2013 by Palgrave MacMillan (and a special Chinese edition by CEIBS Publishing Group, Shanghai), Steenkamp and Kumar argue that Haier and other developing world brands will one day become household names. They point to Japan in the 1980s or South Korea in the 2000s, both of which built global automobile and technology brands, much to the surprise of their competitors in Europe and the United States. “There is, to the best of my knowledge, no country that has come to economic prominence that hasn’t also developed strong brands,” Steenkamp said.

The question, then, is not if these companies will gain a global following, but when – and perhaps more important, how. Steenkamp’s book seeks to answer that question, offering managers at emerging market companies – as well as their counterparts at global multinational corporations – a roadmap for the best ways to build their brands in developed markets. The book is organized around eight “pathways” for growth that illustrate the strategies that these companies should take to go global, which are different than those for developed market players.

“These are not the kind of things you traditionally learn at business school. You learn how P&G is going to be successful entering the Chinese market – rather than the other way around.”

– Jan-Benedict E.M. Steenkamp

For instance, the most common strategy for emerging market companies trying to gain a toehold in developed markets is to take, as Steenkamp calls it, “the Japanese route.” Steenkamp refers to this approach pioneered by Japanese corporations, such as Toyota and Honda, as “the mother of all routes.” Start by entering Western markets with a decent but very low-cost product, and then build name recognition and economies of scale in order to gradually grow quality and price over time. Ultimately, when these companies are ready to go after the premium market, they typically introduce a separate moniker that’s distinct from the original brand’s more pedestrian history (such as Toyota’s Lexus or Honda’s Acura).

Another of the eight pathways is to “use the diaspora as beachhead” or go after an ethnic population living in the developed market. The idea is that, one day, the brand will generate interest from non-ethnic consumers, too. For instance, Steenkamp points to Reliance BIG Cinemas, part of the Indian conglomerate Reliance Group, which now owns more than 200 screens in U.S. cities where a large Indian diaspora resides. The theaters feature a

range of Bollywood and mainstream Hollywood films in an effort to expand the market for Indian films outside of India, both with Indians living in other countries and hopefully one day, non-Indians, too. (Reliance also has a film production and distribution arm.)

A third approach Steenkamp highlights is for emerging market firms to launch as business-to-business (B2B) companies in the West and then add on a consumer brand identity over time. Such a strategy might never be taken by a B2B company from a developed market as it expands globally – it’s far too risky. But because many emerging market companies start out as original equipment manufacturers, making this transition might be necessary. By building a B2B brand first, managers can begin building a platform for global expansion, developing name recognition (even if it’s with a narrower audience) and attracting better talent to the company. When the company is ready to start marketing to consumers – often in an adjacent product category – it has more of a foundation on which to build.

Take Huawei (pronounced WAH-way), for instance. The Chinese telecom equipment maker has grown into one of the world’s largest, selling products first in developing countries, such as Brazil and Mexico, and later in European markets, such as Ireland and Finland. But it’s now also going after the consumer market, too, selling cheap smartphone handset devices to lower income consumers in countries ranging from Nigeria to the United States. Huawei hopes to become one of the world’s top three handset brands by the year 2015. Even if it’s a long way from there now (“I think it’s called a Maui,” one consumer told a *Wall Street Journal* reporter), the company saw its global handset market share nearly double last year, from 1.3 to 2.4 percent, according to the research firm Gartner.

The primary audience for Steenkamp’s book, of course, is managers at emerging market firms looking to expand their products or services to developed markets. In addition to outlining eight key strategies for doing so, Steenkamp shares some critical lessons from the brands that have already begun to make these moves.

For one, patience counts. This is a gradual process that might end up being measured in generations rather than years. Those who try to move too fast too early can fail. In addition, far too many of these managers don’t understand the fickle relationship that U.S. and European consumers have with the brand they buy. “They think too often that brands are about functional quality,” he said, “whereas to be successful in the United States, a brand has to evoke an emotion.”

Steenkamp’s upcoming book is also designed to be a wakeup call for managers in companies from developed markets who don’t yet see the threat that their overseas competitors pose. By outlining strategies that these opponents might take, Steenkamp hopes executives will better understand what moves their competitors might make next, as well as what kind of potential exists for acquisition targets in emerging markets.

What’s more, it’s not just people who work for companies based in India and China these days who are trying to expand new brands to the United States and Europe. More and more global companies are practicing “reverse innovation,” launching new products first in emerging markets and then trying to expand them back into their home countries. For instance, Steenkamp points to denizen, a value-priced line of jeans started by Levi’s in Asia that is now being introduced (launched in Target in July 2011) to the United States. “These companies are truly global product developers,” Steenkamp said. “They’re harnessing the best ideas around the world.”

Steenkamp believes consumers, too, will increasingly be looking for the best brands around the world, no matter where they originate.

“The brand equity of brands from these emerging markets is lagging behind the actual quality of what they deliver,” said Steenkamp. And it’s only a matter of time before they catch up.



Steenkamp and Kumar describe eight pathways for emerging market brands to go global in their forthcoming book, “Brand Blowback”:

1 **Go from B2B to B2C.**

By building a B2B brand first, managers can start to build a platform for expansion, developing name recognition and attracting first-rate talent. When the company is ready to start marketing to consumers – often in an adjacent product category – it has more of a foundation on which to build. Example: Indian tractor maker Mahindra & Mahindra.

2 **Travel the Japanese route.**

Brands that start by entering a developed market on the low end can slowly build brand recognition and economies of scale over time in order to improve quality and raise prices. When they’re ready to go after the premium market, these brands typically introduce a separate premium brand that’s distinct from the original one. Example: Chinese major appliance manufacturer Haier.

3 **Use the diaspora as beachhead.**

As a global market leads to unprecedented numbers of people not living in their native countries, companies can enter developed markets by going after ethnic groups first. Over time, the brand may attract Western customers, too. Example: Filipino company Jollibee.

4 **Acquire and migrate.**

An emerging market company acquires a Western company, a move that allows it to “buy in” to the developed market and gain both an instant international reputation and access to distribution channels in the process. Example: Chinese computer maker Lenovo, which bought IBM’s PC group in 2004.

5 **Build national champions.**

A company is championed by the state and receives subsidies or preferential treatment, such as state resources to expand both domestically and, subsequently, internationally. There is plenty of evidence that this pathway does not always produce winning brands. Example: Dubai (United Arab Emirates) airline Emirates.

6 **Brand natural resources.**

A brand can be created for natural resources, standing in as both a quality guarantee and a provider of emotional satisfaction. Often, it’s done by either explicitly linking it to a country or by branding the commodity itself. Example: South African company De Beers.

7 **Leverage country of origin for global advantage.**

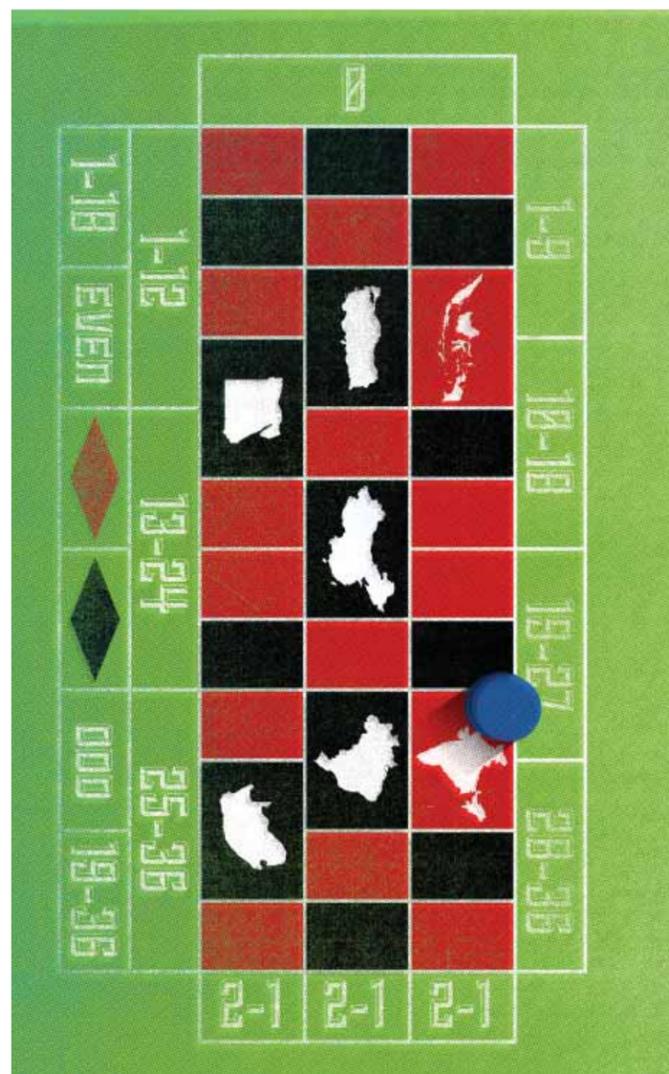
Because Western consumers often associate different emerging markets with certain positive attributes, an apparent weakness can actually be turned into a strength. Example: Brazilian company Natura, which capitalizes on Brazil’s image of beautiful, untamed nature and biodiversity.

8 **Overcome country-of-origin disadvantage.**

Rather than flaunting their nationality, companies that use this approach deliberately repress their country of origin, either by hiding it or attacking the stereotype that developed-market consumers have of their countries. Example: Mexican beer company Cerveceria Modelo (Corona beer).

Great Potential. Great Peril.

Required – a roadmap for risk when investing in emerging markets



Emerging markets hold the potential for extraordinary growth, but they contain risks not present in the developed world. Quantifying that risk becomes all the more important to firms and portfolio investors as they increasingly look toward the emerging markets, where the most exciting growth opportunities reside.

Finance professor Christian Lundblad emphasizes the importance of accurate risk measures when making corporate or portfolio investment decisions in emerging markets. Overestimate risk and you might miss out on great returns. Underestimate it and you might be in for an ugly surprise.

Lundblad develops a technique to isolate the premium charged for political risk by using information in the relative market yields of sovereign debt. He explains in his paper “Political Risk and International Valuation” with Geert Bekaert of Columbia University, Campbell R. Harvey of Duke University and Stephan Siegel of the University of Washington.

“Looking at the difference between what a borrowing country pays its creditors in U.S. dollars and the interest rate the U.S. Treasury pays over a similar term tells us something about what the market is thinking about that country’s ability to repay its debt and all the challenges that country is facing,” Lundblad said.

For instance, if the Peruvian government wants to borrow U.S. dollars (a likely scenario, because an emerging country wants to attract foreign capital, and lenders are more comfortable lending in their own currency), global creditors will charge the Peruvian government a higher interest rate, presumably, than it would charge the U.S. government (generally perceived to be credit risk-free, recent developments notwithstanding).

A multinational corporation (MNC) investing in an emerging market needs to take into account not only the normal business risks associated with its operations but also risks specific to that country.

For example, when an MNC active in China makes investment decisions, it has to factor in the likelihood of corruption, regulatory discrimination that favors local competitors and potential difficulties in repatriating gains. It also needs to consider unusual but important scenarios in which, say, the Chinese political structure is completely overturned.

The catchall term “political risk” reflects these and other related risks important for an MNC’s operations. Standard approaches used to quantify investment risks in developed countries don’t always reflect the factors that might be of first-order importance for an MNC in an emerging economy. Investors active in such markets have struggled to develop a method to assess risk, and, thus far, only ad hoc tools have been developed. Lundblad discovered that the ways firms quantify these risks vary dramatically from firm to firm.

“Some completely ignore it, which means that they are ignoring a serious risk consideration and potentially investing at levels they shouldn’t,” he said. “Some make adjustments that incorporate a composite of many different kinds of risk, some of which aren’t

important to MNCs. They are overpenalizing projects and not investing in opportunities they should.”

Unfortunately, the sovereign debt spread, while useful, is determined by many other factors potentially unrelated to the risks that MNCs need to consider. For example, global credit conditions and the local bond-trading environment significantly affect the spread. A spread elevated by a global credit crunch (like that witnessed in the fall of 2008) could incorrectly lead an MNC to adjust for a risk factor that has little to do with the political risk associated with the investment.

Instead, Lundblad created a method to isolate a political risk spread, stripped out from the sovereign spread. A more precise understanding of an investment’s risk, including political risk, reduces the likelihood that an MNC will misallocate capital.

To come up with this political risk spread, Lundblad and his colleagues first collected sovereign spread data for a wide range of emerging countries. They then gathered data on the potential determinants of the sovereign spread, including detailed data on political risk perceptions from the International Country Risk Guide. A statistical exploration then identifies the components of the spread.

Returning to the example of Peru borrowing U.S. dollars – if it cost Peru three percent more to borrow dollars than it cost the U.S. government, Lundblad’s method could determine how much of that extra three percent comes from things that MNCs should be concerned about and how much is attributable to other, unrelated, factors. Isolating the political risk spread might prevent the company from rejecting otherwise good projects. Investing too little not only hurts the MNC – preventing it from reaping good returns – but it does a disservice to the emerging market country by impeding foreign investment in its economy.

“This can matter a great deal for job creation, poverty reduction and economic growth in the emerging market, the recipient of the investment,” Lundblad said.

Lundblad, an expert in international finance and emerging markets, has won wide acclaim for his writings. His paper “Liquidity and Expected Returns: Lessons From Emerging Markets” provides a new measure of liquidity in emerging markets, which are notorious for their difficult trading environments. The data suggest that local market liquidity risk is an important driver of expected returns in emerging markets.



Christian T. Lundblad is the Edward M. O’Herron Distinguished Scholar and an associate professor of finance at UNC Kenan-Flagler. christian_lundblad@unc.edu

In another widely cited paper – “Does Financial Liberalization Spur Growth?” – Lundblad shows that equity market liberalizations (the regulatory process of opening up to foreign investors) lead to sizeable increases in local investment and economic growth. This issue had been hotly debated, with obvious and important policy implications for countries that might be actively considering opening their securities markets to outside investors.

Lundblad provides a real-time measure of equity market segmentation based on the magnitude of valuation differentials across markets for similar securities in “What Segments Equity Markets?” The new measure permits the exploration of the degree to which international markets have become more integrated, as well as a better understanding of the factors that impede further integration. While globalization has narrowed equity price differentials around the world, partial segmentation in emerging markets remains. Factors that make some countries more frightening from a business standpoint, including the political and institutional risks highlighted above, continue to effectively segment otherwise open markets.

Since the release of his paper on political risk and international valuation, Lundblad has delivered his findings to researchers and central bank staff in Peru, India and the United Kingdom. He presented his research to the Bank of Italy last fall during the Italian government’s transition.

Lundblad’s research has implications for policy. Policymakers in the developing world use the sovereign spread to infer what market participants are thinking about their country’s prospects. Using Lundblad’s method, policymakers can focus on the most relevant components of the spread. To attract additional foreign investment, they can better understand the risk charge for a potentially challenging institutional environment. Then perhaps they can guide reforms to enhance the perception of their country being business friendly.

“If foreign businesses aren’t investing,” Lundblad said, “that affects jobs and the economy in that country. It’s important to quantify the impediments.”

Lundblad already has begun thinking about how MNCs can structure their investments in such a way that they take advantage of the opportunities that emerging markets offer without overly exposing themselves.

“The question going forward is: How do we mitigate this risk?” he said. “In emerging markets, the risk is high, but so, too, is the expected return. Getting that ratio right is really important.”

And the Winner of the Talent Competition Is...

Companies that create a genuinely healthy culture reap the rewards

When it comes to creating a healthy culture to attract and retain high-potential talent in emerging markets, Doug Ready does the math.

“A healthy culture is the product of a company’s articulated values divided by its observed behaviors,” said Ready, a leadership professor at UNC Kenan-Flagler. “If you attract talent by saying you are a collaborative company but turn out not to be, you have an unhealthy culture, and people will be disenfranchised.”

He cites the example of a Uruguayan software engineer applying to work for an Indian company in Brazil in “Winning the Race for Talent in Emerging Markets,” published by *Harvard Business Review*. The engineer was attracted by compelling promises that Standard Chartered Bank made about:

- + Brand – It had a reputation for excellence that might lead to personal advancement.
- + Opportunity – It would provide challenging work, training and competitive pay.
- + Purpose – It had a meaningful mission and values.

By keeping its promises, Standard Chartered Bank reduced its attrition rate by three percent at a time when its rivals showed an increase in attrition.

“Purpose attracts, opportunity attracts, brand attracts and so does culture,” Ready said. “Yet if a company’s culture isn’t authentic, then the very thing that served as an attraction device will now be a strong factor in driving your high potentials away.”

To keep a company’s culture authentic, Ready advises:

- + Beware of exporting your domestic talent strategy to emerging markets. What works at home might not succeed in the developing markets.
- + Have the patience to establish a core of local talent that can guide you in understanding the region.
- + Avoid insisting that English be the official language. Some of the most promising talent might not speak English fluently.
- + Promote local talent. Bright, young recruits want to see people like themselves in positions of power, particularly in hierarchical societies where getting ahead means relying on family or other connections.

Companies committed to developing a healthy culture – and delivering on it – will win the contest for recruiting and retaining talented employees in fast-growing emerging markets.



Doug Ready is a professor of the practice of leadership at UNC Kenan-Flagler and founder of International Consortium for Executive Development Research. doug_ready@kenan-flagler.unc.edu

Look! Up in the Sky!

Building aviation infrastructure for competitive advantage

For all technology to do business more efficiently – virtual meetings via Skype, marketing via Twitter, sales via website – manufacturers need to receive supplies, and sellers need to deliver their product to the end user.

“The Web can’t move a box,” said John D. Kasarda, author of “Aerotropolis,” a book laying out his years of research into the way aviation networks have shaped the economies of developing nations. Air traffic has become the physical Internet, particularly for emerging markets, and is as important as highways in the 20th century and railroads in the 1800s.

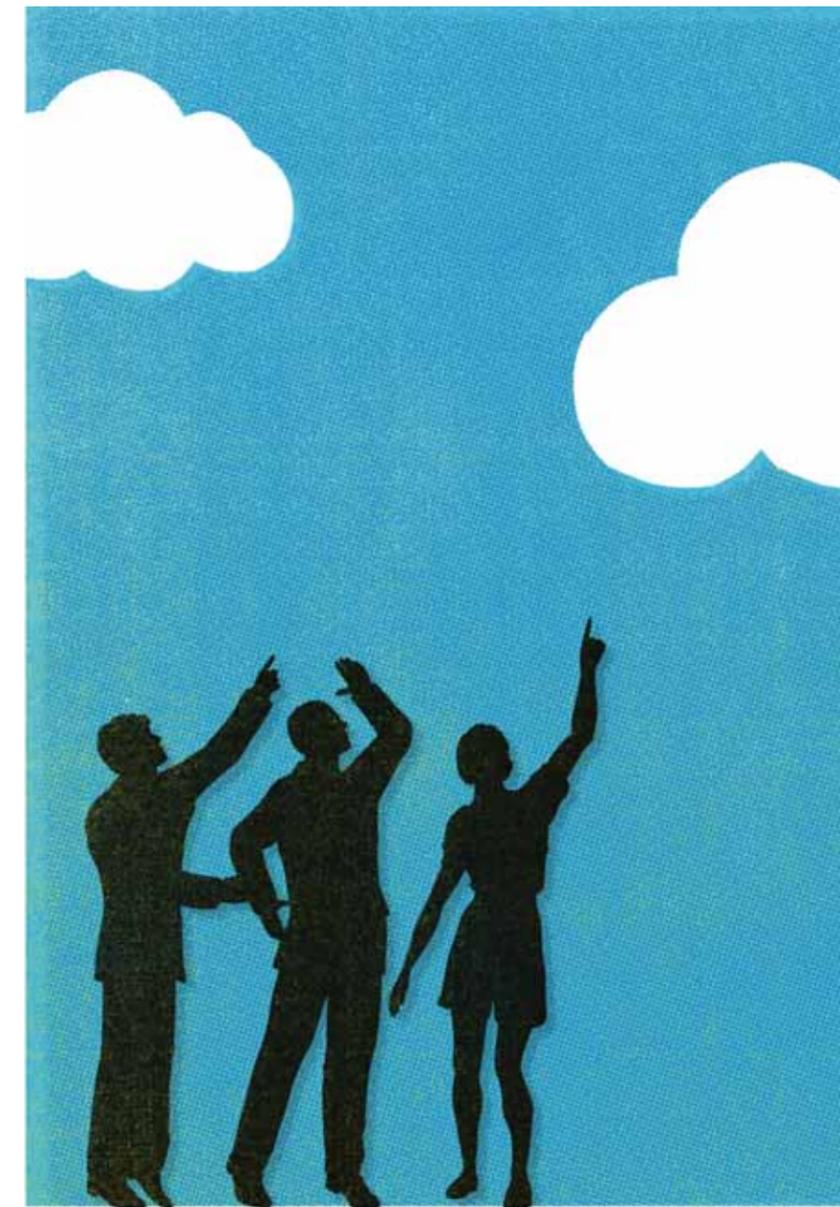
In an age where speed trumps size, emerging markets in Asia, Africa and the Middle East can leapfrog Western Europe and the United States by investing heavily in airline networks and airports. China is investing about \$250 billion in its airports over the next five years; the United States is investing only \$2 billion. Agile, well-connected cities like Dubai, Singapore and Hong Kong have opportunities to develop much faster than cities that don’t have easy access to air travel. Parts and materials for iPads and iPhones, for instance, can be sent from eight or nine countries on demand to China, where they are assembled into finished products and shipped out immediately to meet market demand.

“We are becoming a connected world that is increasingly time competitive,” Kasarda said. “It’s not the big eating the small; it’s the fast eating the slow. You’ve got to move products around the world quickly and efficiently. As much as 90 percent of high-value, high-tech items move by air.”

Efficient aviation infrastructure not only enables emerging markets to transport high-value products – everything from pharmaceuticals and medical instruments to roses and sea bass – to customers around the world but connects businesspeople to new partners and sources of capital.

“Emerging markets, particularly in Asia and the Middle East, view their airports and aviation infrastructure as strategic assets to compete in the globally connected, speed-driven marketplace,” Kasarda said. “We in the United States, unfortunately, too often view our airports and airline networks as nuisances and toxic threats to be controlled.

“By neglecting our aviation networks, we’re neglecting our trade infrastructure.”



John D. Kasarda is the Kenan Distinguished Professor of strategy and entrepreneurship and director of the Frank Hawkins Kenan Institute of Private Enterprise at UNC Kenan-Flagler. john_kasarda@unc.edu

Hungry for a New Solution

Supply chain management remains an obstacle to disaster relief

The world hunger problem is not going to go away.

UNICEF, as part of a worldwide initiative to combat hunger in emerging countries, adopted the use of a ready-to-use therapeutic food (RUTF). The biggest challenge proved to be supply chain management. A team of researchers led by Jay Swaminathan and Wendell Gilland, professors of operations, technology and innovation management at UNC Kenan-Flagler, came to the rescue.

The *Financial Times* published their “Case Study: Getting Food to Disaster Victims,” which summarizes the key findings of the study that helped UNICEF radically change the distribution strategy of the RUTF in the Horn of Africa.

“Things we take for granted in the developed world – roads, warehouses, logistics, clearance processes – you can’t take for granted in emerging countries,” Swaminathan said. “And with the regulations and barriers between countries, sometimes you can’t trans-ship products even between neighboring countries.”

The study quantified the level of shortage as demand for RUTF rose exponentially and showed UNICEF how much it had to expand its supply base. Uncertainty is a key factor that contributes to supply chain challenges. Weather patterns, such as extended drought, can cause demand swings; so can political events, in emerging countries.

Transportation times varied wildly. Many issues that pose minor problems in developed countries can totally derail the system in an emerging country. Heavy rain might delay a flight in some parts of the world but could wash out a road in an emerging country, forcing the supply chain to find another route or means of transport.

Swaminathan generally recommends local sourcing as a way to increase supply chain efficiency. But in emerging countries, that can be very difficult.

“Getting startup funding for small businesses, getting the right quality machinery to do the work and getting an uninterrupted supply of raw materials of sufficient quality are challenges,” he said.

Nonprofits face the additional obstacle of having to rely on funding for almost every link in the system. Variance in the amount and timing of funding schedules severely hampers supply chain productivity. Most recently, he and his doctoral student Karthik Natarajan have quantified how funding flows impact operational effectiveness in humanitarian settings.

Swaminathan’s recommendations for diversifying UNICEF’s supply base, improving its demand forecasting systems and broadening its approach to obtaining and managing funding have saved UNICEF millions of dollars over the past three years. “Still, more resources, more attention and more studies are needed to make a major dent in combating hunger,” Swaminathan said.

Jay Swaminathan is the GlaxoSmithKline Distinguished Professor of operations, technology and innovation management and faculty director of UNC-CIBER at UNC Kenan-Flagler. msj@unc.edu

Wendell Gilland is an associate professor of operations, technology and innovation management at UNC Kenan-Flagler. wendell_gilland@unc.edu

The Spoils of Raw

Manufacturers must take steps to ensure product safety

Shortly after news broke of the melamine milk contamination in China, the UNC-Tsinghua Center for Logistics and Enterprise Development in Beijing hosted an international symposium on food and drug safety on the same day China’s new food safety law went into effect. While food products can become unfit for humans for many reasons, the symposium pointed to the importance of good supply chain infrastructure and management. China, like many emerging countries, does not have adequate cold chain capabilities to assure that food remains in controlled-temperature conditions at all points in its supply chain. Center co-director Noel Greis and faculty board member Ann Maruchek, both of UNC Kenan-Flagler, began working with their Tsinghua colleagues and industry partners to research cold-chain capability in China. Without an adequate cold chain, as much as 30 percent of food products spoil and become unsafe to eat before they reach the consumer.

A series of such high-profile product safety incidents in similar highly regulated industries prompted Maruchek and Greis to compile a global research team to study the problem. Their article “Product Safety and Security in the Global Supply Chain: Issues, Challenges and Research Opportunities,” published in the *Journal of Operations Management* in November 2011, examines the reasons for product failures in five highly regulated industries: food, pharmaceuticals, medical devices, consumer products (particularly toys and electronics), and automotive.

“Traditional local solutions and existing regulations aren’t sufficient to assure the safety of products whose supply chains have become increasingly global, long and complex,” Maruchek said.

The drivers of product safety and security issues are quite different in each of the industries. Food safety must reduce the risk of contamination in the supply chain, particularly by improving cold-chain capability. Pharmaceuticals must combat counterfeiting and control the secondary distribution market. Medical devices must manage rapid innovation and technology. Consumer products and motor vehicles must integrate safety into the product design process.

Though no single solution will fix the problem, traditional tools of supply chain management are more effective than relying on regulations and inspections. The Maruchek/Greis team recommends that manufacturers:

- + Work with policymakers to provide incentives for product safety.
- + Manage hazards in conjunction with life cycle analysis.
- + Use technologies, such as radio-frequency identification (RFID), for better traceability and recall management.
- + Better manage suppliers.

“There has been little harmonization of regulatory and industry standards across countries,” Maruchek said. “As manufacturing moves to emerging countries, compliance with safety standards may be difficult for small organizations with limited resources that will struggle with the costs of implementing safer methods of production.”



Ann Maruchek is the Crist W. Blackwell Distinguished Scholar and chair of operations, technology and innovation management at UNC Kenan-Flagler. ann_maruchek@unc.edu



Noel Greis is co-director of the UNC-Tsinghua Center for Logistics and Enterprise Development and director of Center for Logistics and Digital Strategy at UNC Kenan-Flagler. noel_greis@unc.edu

Entering a New Marketplace Is as Easy as 1-3-2

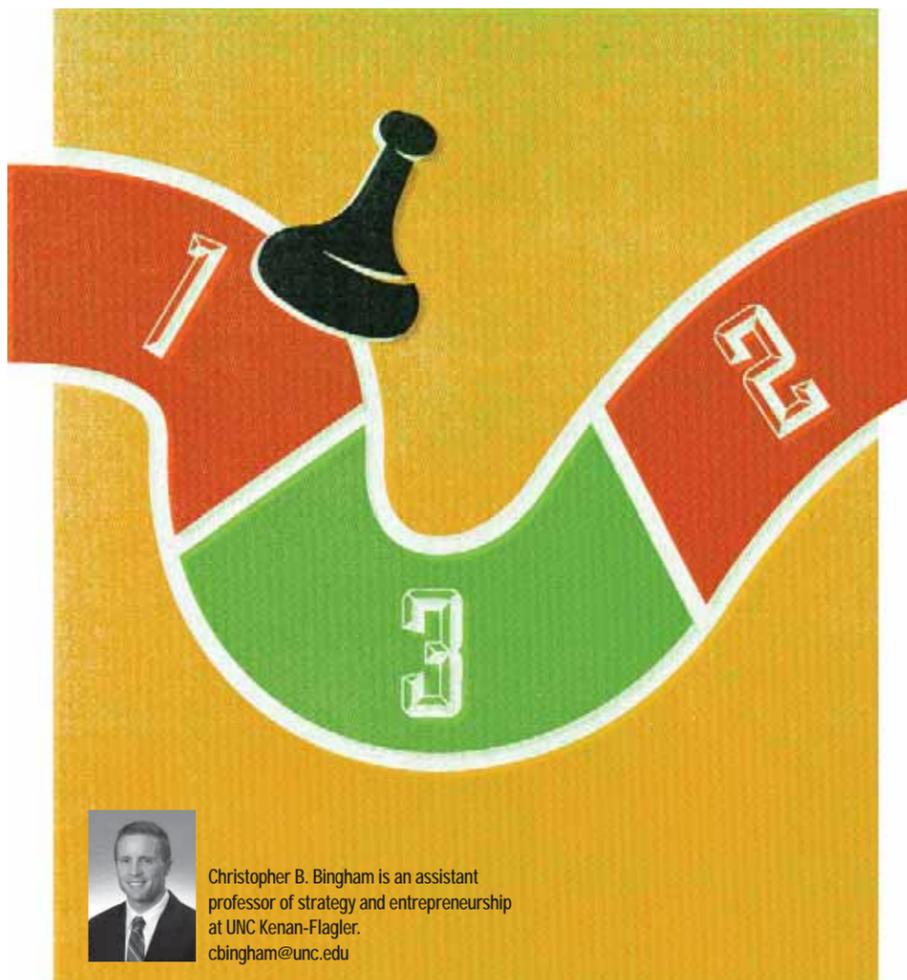
Consider taking the road less traveled

When it comes to entering emerging markets, sometimes you can't get there from here. Research by Chris Bingham points to the importance of sequencing – entering markets in the order most effective to getting where you want to go.

Bingham cites a startup in Singapore wanting to do business in Japan in "Oscillating Improvisation: How Entrepreneurial Firms Create Success in Foreign Market Entries Over Time," published in the *Strategic Entrepreneurship Journal*. Ironically, the company had to do business first in the United States to get an American customer reference before broaching the Japanese market.

"The sequence by which you get there is as important as the markets themselves. Sequencing is provocative. Sometimes you have to enter markets you don't want to be in to get to the end prize."

– Christopher B. Bingham



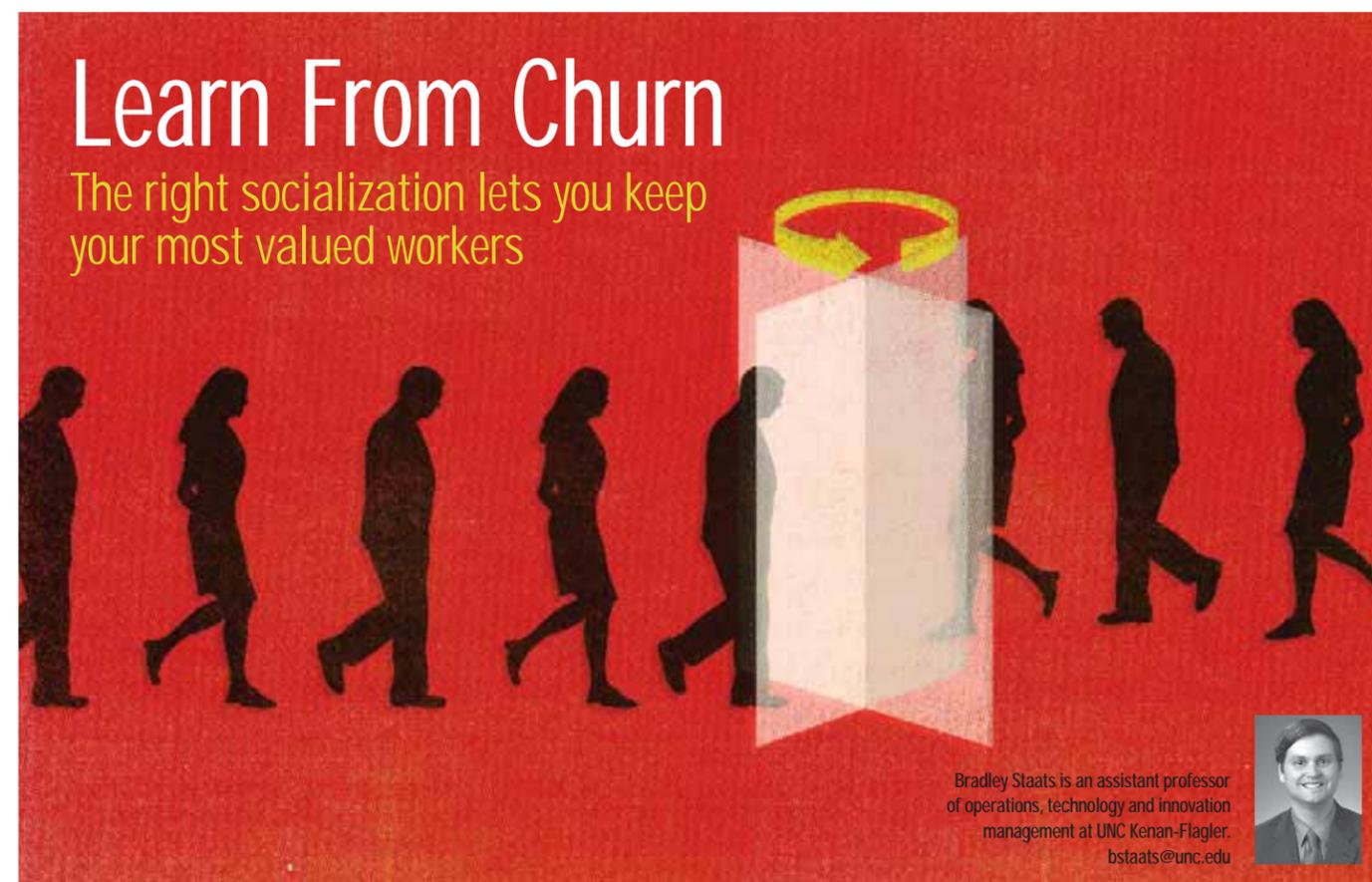
Christopher B. Bingham is an assistant professor of strategy and entrepreneurship at UNC Kenan-Flagler. cbingham@unc.edu

"It's counterintuitive that this Singapore startup, instead of going directly north to Japan, had to go way far west to the United States to get the Japanese to look at them differently," Bingham said.

There's a pecking order of nations, Bingham said, that changes with the industry. Understanding that order can come along three main paths: through trial and error; vicariously, through the experiences of similar companies or products in an industry; or through a consultant with extensive firsthand knowledge of the culture and market quirks.

Bingham tells of another company wanting to do business in Japan that moved first into Taiwan and Korea. Japanese customers tend to be critical and take a long time to make product decisions. Startups don't have much time or money to spend waiting for a market to respond. Taiwan and Korea value being first to market, so they're willing to accept a relatively untried product in order to have it first. Success in those two countries paved the way for success in Japan.

"The sequence by which you get there is as important as the markets themselves," Bingham said. "Sequencing is provocative. Sometimes you have to enter markets you don't want to be in to get to the end prize."



Bradley Staats is an assistant professor of operations, technology and innovation management at UNC Kenan-Flagler. bstaats@unc.edu



High turnover hurts any company's bottom line. And the problem can be particularly pervasive in emerging markets, where high growth rates spur increased demand for labor in a geographical area that might have a limited supply of qualified workers. Cultural differences can exacerbate turnover when new employees are expected to fit into a work culture that is very different for them.

New research by Brad Staats and a research team describes a more effective onboarding process that reduced turnover by 100 percent and increased productivity in a six-month field experiment at Wipro BPO in India.

He introduces a new onboarding technique called authentic socialization – applying an employee's unique personal perspective to work – in the paper "Breaking Them In or Revealing Their Best? Reframing Socialization Around Newcomer Self-Expression."

"Instead of indoctrinating new employees on 'how things are done around here' in hopes that they will internalize organizational values," Staats said, "authentic socialization enables newcomers to highlight their unique identities at the very beginning of the employment relationship and bring more of their signature strengths to the job."

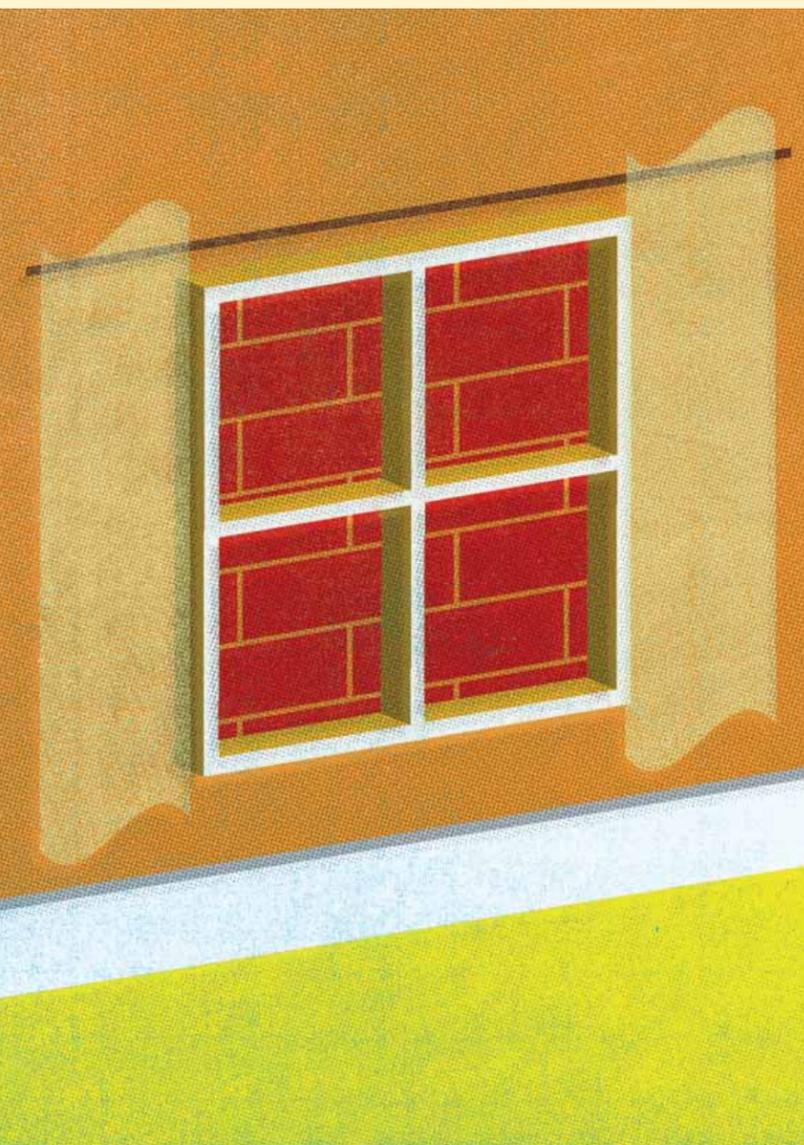
Authentic socialization taps into people's need for self-expression, to have others see them as they see themselves. When they feel valued for who they are and what they contribute, they show fewer symptoms of depression, emotional exhaustion and anxiety.

Small investments in socialization practices can yield surprisingly large and valuable changes in employee quality and retention. Organizational-focused socialization reduces a firm's adaptability by replicating its traditional values onto new hires. Authentic socialization builds a creative workforce and agile organization. The technique helps newcomers identify their authentic strengths and link those strengths to the organization. Employees feel a greater commitment to making the organization succeed.

"Quitting is a likely outcome of unsuccessful socialization," Staats said. "When newcomers feel they are using their signature strengths at work, they experience greater satisfaction, lower stress and less emotional burnout. They invest more personal energy into their work when they feel understood for whom they really are."

I Can't See Clearly Now

Corporate opacity benefits – SURPRISE! – the institutional investor



The U.S. House of Representatives passed the Entrepreneur Access to Capital Act (EACA) in November 2011, allowing firms to raise up to \$2 million in investments of less than \$10,000 per investor without significant regulatory oversight. Critics of the bill raised concerns about the potential for fraud in the absence of centralized regulation.

The U.S. debate about the optimal level of regulation of financial markets is broadly applicable to other markets where similar debates are taking place, and new research by Mark Maffett delineates some of the potential implications of reducing financial reporting regulations.

Firms in opaque information environments, such as in emerging markets, experience more informed trading by institutional investors – and those investors can realize significant returns as a result, potentially at the expense of the less sophisticated investor.

Maffett, an accounting PhD candidate at UNC Kenan-Flagler, contributes to the debate in his dissertation, “Who Benefits from Corporate Opacity? International Evidence From Informed Trading by Institutional Investors.”

“Country-level infrastructure affects the availability of financial reporting information,” Maffett said. “Disclosure requirements, corporate governance requirements, even the development of the news media, affect the availability of financial reporting information. In emerging markets, you’d expect those aspects to be less developed, and that’s going to lead to more informed trading that leaves less sophisticated investors – the kind EACA is intended to attract – vulnerable.”

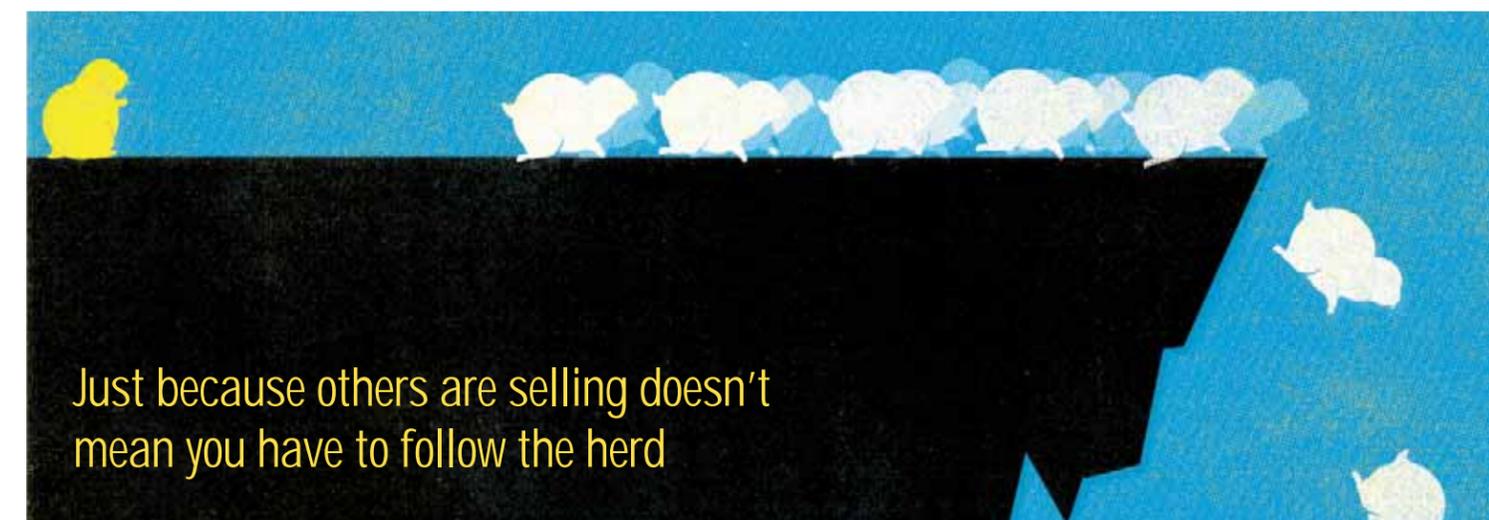
Those aspects hold policy implications: A country can make infrastructure improvements to mitigate opacity. From a business perspective, more informed trading can have capital market implications, such as reduced stock market liquidity, higher cost of capital or lower firm valuation, in part because less informed investors will limit what they’re willing to pay for the firm’s shares, knowing they likely are trading against a more informed party.

“The debate about the EACA opens the question of the optimal level of financial reporting regulation,” Maffett said. “My research sheds light on the potential costs and benefits of varying levels of regulation at the firm and country levels.”



Mark Maffett is a doctoral student in accounting at UNC Kenan-Flagler. maffett@unc.edu

Patience Is Its Own Reward



Chotibhak Jotikasthira and Christian T. Lundblad of UNC Kenan-Flagler and Tarun Ramadorai of Said Business School at the Oxford-Man Institute of Quantitative Finance draw on Emerging Portfolio Fund Research data to observe how mutual funds respond to inflow and outflow pressures. Their paper, “Asset Fire Sales and Purchases and the International Transmission of Funding Shocks,” documents that economic shocks in one market can be transmitted to other markets through the very funds meant to bridge those gaps.

“When you and everyone else are putting a lot of money into mutual funds at the same time – or in bad times, extracting a lot of money at the same time – the emerging-market country experiences wild gyrations that have nothing to do with the real prospects of that nation,” Lundblad said. “That creates co-movement among all markets around the world.”

Emerging markets are risky to begin with. But because the returns from those investments are not driven by the same factors that drive investments in other markets, they can provide opportunities to diversify an investor’s positions. However, when one country experiences an economic shock – as the United States did during the housing crisis of 2008 – investors’ risk aversion may increase, and they may reduce their allocations in risky investments, such as emerging markets. Mutual fund managers are obligated to sell off those emerging-market investments, even if the fund manager believes the prospects for an emerging market are good. The resulting fire sales of assets undermine the stabilizing factor that diversification affords, because the outflow of funds from that emerging market ensures a significant decline in the stock market of that country.

“At exactly the time we would like to enjoy the benefits of diversification, we get a little less diversification than we expect due to the nature of financial markets,” Lundblad said.

On the flip side, mutual funds under pressure to move out create a buying opportunity for traders not under the same constraints as mutual fund managers – hedge fund managers, for instance.

“If you have the patience and the capital to be on the other side of that trade, you can make a lot of money,” Lundblad said. “If you have a degree of flexibility and are willing to ignore short-term gyrations, you can benefit.”



Chotibhak Jotikasthira is an assistant professor of finance at UNC Kenan-Flagler. pab_jotikasthira@kenan-flagler.unc.edu



Christian T. Lundblad is the Edward M. O’Herron Distinguished Scholar and an associate professor of finance at UNC Kenan-Flagler. christian_lundblad@unc.edu

Pioneer of Services Marketing Wins Bullard Research Impact Award



Valarie Zeithaml
David S. Van Pelt Family Distinguished
Professor of Marketing

Award-winning researcher and teacher **Valarie Zeithaml** received the fourth annual Bullard Research Impact Award in recognition of the broad impact of her research on her field, industry and society. Zeithaml is an internationally recognized pioneer of services marketing who has devoted more than three decades to researching, consulting and teaching service quality, services management and customer equity.

Zeithaml's programmatic series of 20 research studies resulted in a methodology called SERVQUAL to measure customer perceptions of service quality. SERVQUAL has been used all over the world by hundreds of companies, government organizations and non-profits. She also created a strategic model called the Gaps Model of Service Quality that provided a comprehensive way to view and improve service quality. The research on SERVQUAL and the Gaps Model has been cited by more than 60,000 research and business publications.

Zeithaml has received numerous awards for contributing to the marketing practice through her groundbreaking research, which she incorporates into her teaching. The American Marketing Association and the Marketing Science Institute have awarded their top honors to Zeithaml for extensive contributions to the marketing practice. She has researched customer expectations in more

than 40 industries and has consulted with service and product companies including IBM, Kaiser Permanente, GE, John Hancock Financial Services, AT&T, Sears, Metropolitan Life Insurance, Bank of America, Chase Manhattan Bank, Allstate, BellSouth, and Procter & Gamble.

Zeithaml is the author of five books. She is best known for her chart-topping business book, "Delivering Quality Service: Balancing Customer Perceptions and Expectations," now in its 20th printing and translated into Spanish, Korean, Portuguese, Chinese and German. Students can read her textbook, "Services Marketing: Integrating Customer Focus across the Firm," in Chinese, Portuguese, Spanish, Russian and Italian.

The Bullard Research Impact Award was created by the generosity of **Clif Bullard (BSBA '76)**, CEO of Bullard Restaurant Group and Iroquois Bio-Energy Company LLC. He established it in 2009 to provide incentives for and inspire faculty to consider impact on the business world as they choose research topics and communicate their results.