



**CHAIR OF
ORGANIZATION THEORY
PROF. DR. PETER-J. JOST**

**ACTIVITY REPORT
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Assistant Professor Dr. Anna Rohlfing-Bastian
Assistant Professor Dr. Stefanie Schubert
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TEAM



Professor Dr. Peter-J. Jost

Peter-J. Jost has been Professor for Organization Theory at WHU since 1995, and visiting professor at the Free University of Bolzano, Italy, from 2001 to 2011. He got his diploma degrees in mathematics and informatics and his doctoral degree in economics at the University of Bonn and his habilitation degree at the University of Basel. Professor Jost's research interests are Managerial Economics, Theory of the Firm, Labor Economics, Industrial Organization, and Law & Economics. He is the author of textbooks on Strategic Conflict Management, Organization and Coordination and Motivation. He is also founder and chairman of the "German Economic Association of Business Administration" (GEABA e.V.). From 2004 to 2005 he has been dean of WHU.



Assistant Professor Dr. Anna Rohlffing-Bastian

Anna Rohlffing-Bastian studied International Business Administration with Language Certificates in English and Italian at the University of Tübingen and Bocconi University in Milan from 2002 to 2006. After her graduation, she started her dissertation at the Chair for Management Accounting of Prof. Christian Hofmann at the University of Tübingen. In 2007, she followed Prof. Hofmann's invitation to continue her

dissertation at his new Chair for Management Accounting at Mannheim University, where she worked as a research assistant. In 2010, she obtained her Dr. rer. pol. at Mannheim University. In her doctoral thesis entitled "Essays on Incentive Contracts and Organizational Design in Franchising", she examined the interdependencies between incentive systems and the organizational structure of firms. From January to October 2011, she worked as a research assistant at the Chair for Organization Theory at WHU. During this time, she spent six months as a visiting scholar at Stanford University, Graduate School of Business, California, USA. Since November 2011, Anna Rohlffing-Bastian has been Assistant Professor of Organization Economics and Management at WHU. In her research, she integrates Management Accounting and Organization Theory with a special focus on incentive systems, management compensation, and the assignment of tasks in firms.

Since October 2013, Anna Rohlffing-Bastian has been Professor for Managerial Accounting at the University of Tübingen.



Assistant Professor Dr. Stefanie Schubert

Stefanie Schubert has been Assistant Professor for Organization Theory and Management since September 2009. Her research focuses on industrial economics, particularly the use of game theoretic models to analyze the strategic behavior of firms. She studied Economics at the University of Heidelberg. From 2003 to 2008, she has been a research and teaching assistant at the University of Duisburg-Essen and visiting researcher at the research department "Labour

Markets, Human Resources and Social Policy" of the Centre of European Economic Research (ZEW) at Mannheim. Stefanie Schubert completed her PhD in 2009 with a thesis titled "Analysis of the German Social Security System Using Applied General Equilibrium Models". From May 2008 to July 2009, she has been a research assistant at the Chair of Organization Theory at WHU. She published in international journals such as the Journal of Health Economics and Economic Modelling.



*Research Assistant
Dr. Miriam Zschoche*

Miriam Zschoche has been post-doctoral researcher at the chair since May 1st, 2011. She studied Economics at the Universities of Leipzig, Potsdam, and Sydney before she worked for Fraunhofer headquarters in Munich. From 2007 to 2010 she was a research assistant and Ph.D. student at the Chair of Innovation and International Management, University of Augsburg. Since February 2013 she has been receiving a research scholarship from Fritz Thyssen Foundation. From March to August 2013 she visited Kellogg School of Management (Northwestern University). Her research interests are Strategic and International Management.



*Research Assistant
Anna Frese*

Anna Frese joined the team as a research assistant at the Chair of Organization Theory in June 2012. She studied Business Administration at WHU (B.Sc. and M.Sc.) and finished her studies in 2012. During that time, she spent two semesters abroad, namely at Stockholm School of

Economics and Instituto Tecnológico Autónomo de México in Mexico City. Her majors were Strategy & Organization as well as Economics. She wrote her Bachelor Thesis on "Corporate Social Responsibility as Competitive Advantage" and her Master Thesis on "Optimal Group Size and the Role of Social Preferences". Currently, she is working on her dissertation project about price discrimination and quality uncertainty.



*Research Assistant
Theresa Süsler*

Theresa Süsler joined the Chair of Organization Theory as a research assistant and Ph.D. student in March 2014. Before, she studied Business Administration with majors in Economics and Finance at WHU – Otto Beisheim School of Management (BSc and MSc). During her studies, she spent two semester abroad, namely at Olin Business School at Washington University in St. Louis and Università Commerciale Luigi Bocconi. She wrote her Bachelor Thesis on "Profit Maximizing Positioning in the Certification Industry: An Investigation of the Optimal Screening Process for Restaurant Guides", and her Master Thesis on "The Financial Crisis in the European Economy: A DSGE Model-based Analysis of Diverse Impacts in the North and South". Currently, she is working on her dissertation project about costs and benefits in platform-based mass customization.



*Research Assistant
Steffen Reik*

Steffen Reik has been a member of the chair since October 2009. Before, he completed his studies in Business Administration at the University of Mannheim with the degree of "Diplom-Kaufmann" and was co-founder of an internet startup. As exchange student, he took part in the 2nd year MBA-program of the Asian Institute of Management in Manila, Philippines from 2006 to 2007. In summer 2013, Steffen was staying at the Department of Economics of the University of California at Berkeley, USA as Visiting Researcher, invited by Prof. Benjamin Hermalin. Steffen's Ph.D. thesis concerns topics of Credence Goods and Information asymmetry. Since 2012 he has been funded by a merit scholarship of the "Friedrich-Ebert-Stiftung".



*Personal Assistant
Karin Senfleben*

Karin Senfleben joined WHU in 1988 after having finished her language studies. Until 1995 she was secretary of Prof. Dr. Adolf-Friedrich Jacob at the Chair of Finance. Since then she has been supporting Prof. Dr. Peter-J. Jost as his personal assistant at the Chair of Organization Theory.

TEACHING

FALL TERM 2013

BACHELOR OF SCIENCE

Introduction to Game Theory

Game theory analyzes strategic situations. New concepts and methods will be learned and applied to settings from economics and others. Aim of this course is to teach some strategic considerations a decision maker should take into account making his or her choice. Additionally, an aim is to predict how opponents behave when they are in a strategic setting.

This course is an introduction into game theory and strategic thinking. Ideas such as dominance, backward induction, Nash equilibrium, commitment, credibility, asymmetric information, adverse selection, and signaling are discussed. Games are played in class and concepts are applied to cases in business, economics or politics.

MASTER OF SCIENCE

Game Theory

The purpose of the course is threefold: Firstly, students will be trained to recognize and formalize situations of interdependent decision-making. The second objective is to analyze and solve above mentioned situations by using game-theoretic concepts. Thirdly, the course offers some methods how to cope with contradicting interests in organizations.

In this course we discuss situations with simultaneous and sequential decision making, with complete and incomplete information. During the course some basic problem sets that

deepen and enlarge the covered material will be discussed.

Interdependent decision-making is an integral part of organizations: As soon as individuals interact with each other in order to achieve a common goal, dependencies in the actions of the persons involved arise. The fact that members of an organization have different individual objectives may lead to serious conflicts, if the people try to realize their contradicting plans.

Contract Theory

This course is designed to provide students with knowledge about how to construct optimal contractual agreements in the presence of asymmetric information. The basic contractual relation is that between an employer (henceforth "principal") and its employees (henceforth "agents"). A typical example for this relation can be found between shareholders and managers of publicly listed companies. The overall aim of designing a contract is to motivate the agents to select non-observable input which is optimal from the principal's perspective. Examples for such input include the provision of an optimal level of work effort or the optimal choice of an investment project.

In this course, the focus lies on two different types of asymmetric information, moral hazard and adverse selection. The main difference between both types of information asymmetry is characterized by the timing. With moral hazard, asymmetry of information arises during the relationship, but at the stage of contracting, both contracting parties share the same set of information. Moral hazard manifests itself either in hidden action (i.e., the agent takes an action that cannot be fully observed by the principal) or hidden information (i.e., the agent privately observes relevant information and subsequently chooses

an action; the principal can only observe the action). Adverse selection occurs if contracting parties dispose of asymmetric information before they sign the contract. If the contract originates from the informed contracting party, this is known as a signaling game. If the contract originates from the uninformed contracting party, there is the opportunity to perform screening before offering a contract.

SPRING TERM 2014

BACHELOR OF SCIENCE

Individual Decision Making and Motivation

Do we act rationally? And how can we motivate others to do things we want to be done? In this course, you will learn important things about the behavior of others, but also how you act - in business situations as well as in everyday life!

The course provides an economic-psychological approach for successfully interacting with others and managing employees. We concentrate on the employee as an individual member of an organization and deal with the different psychological influences on human behavior in the work context. The course integrates important insights from psychological and sociological research into the management perspective on leadership. In particular, we will analyze differences between individual employees, their needs and their actions. Another important topic will be the limitations to rational behavior, since cognitive and motivational effects distort the individual's actions. Given these conditions, we will work out requirements for the appropriate motivation of employees and analyze important problems that might arise in the work relationship.

In this course we consider the organizational problem from the perspective of

the individual member of an organization. The starting point of the discussion is the employee with his individual needs and aims. By integrating important concepts from psychology and sociology, we aim to understand and analyze his work behavior.

The course pursues three objectives: First, we want to point out how the employee's work behavior is systematically influenced by cognitive and motivational distortions. Second, potential conflicts between individual and organizational objectives are shown. Third, requirements for an adequate leadership behavior are derived from the first two aspects.

Students will learn and discuss how the interactions within a firm are driven by a multitude of psychological and social aspects in order to derive conclusions about the appropriate leadership of employees.

Interdependent Decision Making and Coordination

How do employees interact with each other? How should economic activities be coordinated? The course "Interdependent Decision Making and Coordination" presents an analysis of organizational structures and coordination. In this second part of the module, you will learn about the way interactions between individuals or organizations work and, of course, how you interact with others.

As compared to the first course of the module, we now focus on the interdependencies and interaction between two or more individuals and integrate specific aspects of economic theory in the context of organizations. Moreover, the concepts of market efficiency and transactions are analyzed. We will also examine several coordination instruments and their impact on the value creation of the firm. By comparing hierarchical and non-hierarchical coordination, we will discuss which type is suitable in particular situations.

We define economic organizations as entities in which several people interact with each other to achieve individual or collective economic goals. According to this definition, not only firms, but also markets, interorganizational cooperations and other collective entities are considered as organizations. This, however, is decisive for our understanding of firms. The sharpened competition makes it increasingly important for the designer of a firm to understand the architecture of other firms. An active design of a firm's environment requires the knowledge of interfirm arrangements as well as the understanding of the economic policy or the functioning of markets. An overall perspective of the organization is necessary.

Students will learn about the advantages and disadvantages of several coordination instruments by incorporating concepts from economic theory and understand how hierarchical and non-hierarchical coordination mechanisms influence the structure of organizations.

Seminar Strategic Vertical Integration

A long-standing issue in economic theory concerns the determinants of the boundaries of firms. Why does it matter if a particular transaction is carried out inside a firm or through the market or via a long-term contract? From the neoclassical perspective the role of the firm cannot be determined.

In this seminar, students will get to know, compare, and discuss different economic approaches to answer this question.

DOCTORAL PROGRAM

Selected Topics on Organization Theory

Objective of the course was to introduce postgraduate and advanced students into a selected problem of organizational theory and to give an overview of existing literature in this research field. This year's subject was "International Managerial Economics".

BACHELOR THESES

- David Esser and Michael Wolnicki: "Culture and Decision Making - Does Culture Influence Investor Behavior in Times of Distress?"
- Serhat Kizilboga: "Much ado about Nothing? An Experimental Analysis on the Role of the Affect Heuristic and Noise Trading in Financial Markets"
- Simon Schmeltzle and Simone Häfele: "Mass Behaviour on Capital Markets – an Experimental Analysis"

MASTER THESIS

Victor Heinrich: "Decentralized Financing in Federations in the Presence of Interregional Spillover Effects: A Solution to the Soft Budget constraint problem?"

RESEARCH

DISSERTATION PROJECTS

Camilla Boschetti: Strategic Interactions within Multinational Companies: A Game-theoretical Analysis

Thanks to the globalization process, which has invested the world economy in the last 40 years, firms have begun to evolve in order to respond to changed environmental conditions. The multinational company is nowadays a common organizational form. All the companies listed in the German stock exchange DAX 30 are multinational companies: they have their headquarters in the home country and several subsidiaries all over the world. Usually the strategic, administrative and personnel department are located in the home country whereas production as well as research & development are in the foreign market in order to respond quickly to market needs. The crucial feature of the multinational company is the ability to transfer knowledge from the unit owning it to those units, which can make best use of it. Moreover, some units have begun to distinguish themselves from other units due to the production, deployment and transfer of knowledge of use for the entire multinational company, the so called centers of excellence.

Aim of the work is that of shedding light on the structural and information interactions, which take place within the multinational company, within a theoretical model. For simplicity, the multinational company object of analysis has two subsidiaries. The headquarters, located in the home country and pursuing strategic as well as administrative tasks, has two subsidiaries in two different foreign markets.

Given the described organizational structure, the main research question leading the work may be subsumed as follows: should

the headquarter involve the subsidiaries in the knowledge development processes or should R&D be carried out centrally? These questions try to subsume two streams of literature, that is to say, the management literature as well as the economic literature. The role played by headquarter and subsidiaries within the R&D activities will be investigated, taken into consideration both the external competitors in the two markets of reference as well as the company-internal information flows.

Camilla Boschetti is Italian citizen. She studied Politics, Philosophy and Economics (PPE) as well as Economics and Management at the Free University of Bolzano (Italy) and received her Master of Science in Management from the University of Lugano (Switzerland). Since 2011 she has been an external PhD-student at the Chair of Organization Theory at WHU. Currently she is employed at Allianz Deutschland AG in Munich as a team leader in operations, commercial business fleet department.

Sebastian Burchhardt: Identity Driven Contests with Endogenous Entry – A Principal-Agent-Model on Employee's Positioning within Corporations and its Impact on the Success of Corporate Mergers and Acquisitions

Since the middle of the 20th century companies have responded increasingly to the challenges of a globalizing economy by organizational changes. One of various options is either to merge with other companies or to acquire (respectively divest) organizational sections in order to integrate them into another organizational context. Even though researchers agree generally on the advantages and involved targets of corporate mergers and acquisitions (M&A), practical experiences reveals unfortunately high rates of failure.

Up to the end of the past century M&A oriented research literature mainly focused on aspects of successful partner selection and evaluation. Since then however organizational research is increasingly and selectively looking into the reasons for the observed high rates of M&A failures. One of the mentioned reasons is that the psychological impact of M&A activities on the involved employees and their motivation is already underestimated in the early stages of the change process. The M&A literature therefore developed the “merger syndrome” as a catch-all phrase for psychological symptoms employees might face during the preparation and realization of M&A activities. Possible consequences are frustration, hassle and depression, followed by internal dismissal and turnover of talented employees, resulting at the end in a loss of productivity and profitability.

The intention of the dissertation project is to develop a game-theoretic model that analyzes possible behavioral patterns of employees during M&A-processes and the respective impact on the success of the transaction itself. Since the actual research on M&A failure rates focuses strongly on the “Social Identity Theory”, the approach of the model is mainly driven by the combination of classic contest with identity models. The result is the development of a principal-agent-model that allows for endogenous contest entry driven by identity. Since so far there is no economic model that describes the participation decision of a possible contestant as something that is “identity driven”, the dissertation project contributes to close the respective research gap. In addition the model allows deriving guidance for the practical M&A management.

Sebastian Burchhardt studied Business Economics and Management at the Ludwigs Maximilians University in Munich. Since 2009 he has been an external PhD-student at the Chair of Organization Theory at WHU. Currently he is financial controller of the Export Sales Department at Siemens

Audiologische Technik GmbH (Sector Healthcare) in Erlangen.

Anna Frese: A Strategic Analysis of Price Discrimination in the Presence of Quality Uncertainty

This research project focuses on the widely used practice of price discrimination when consumers are ex-ante uncertain about the quality of a product. Contrary to suggestions of standard economic theory, consumers do not only care about their own material payoff, but might also compare themselves with other consumers. Past research has neglected the role of social preferences and thus may have over- or understated the optimality of price discrimination strategies. A firm can discriminate among consumers that are heterogeneous with respect to their tastes for quality. In this case, it might offer a higher quality product to one segment, while selling a lower quality product at a reduced price to the other segment. When consumers compare the ratio of the price paid and the quality received with the price-quality ratio of the other segment, they will either feel disappointed if they have a higher price-quality ratio or happy if the difference is negative. This additional (dis-)utility obtained from the comparison with other consumers is a central element in the game-theoretical model. It does not only influence the purchase behavior of consumers, but does also alter the firm’s incentives to sell and signal a particular quality level. The model will provide implications for strategic quality choices and the conditions under which price discrimination is the profit maximizing strategy.

Anna Frese has been a research assistant at the Chair of Organization since June 2012. For more information, see page 4.

Steffen Reik: A Game-theoretic Analysis of the Strategic Interactions between Actors on a Market of Credence Goods

The dissertation project focuses on credence goods and their information asymmetry between sellers and buyers. Credence goods markets, such as markets for health care services or car repairs, are characterized by the ex ante and ex post information asymmetry regarding the quality of the sold good. These markets are thus potential subject to fraud either by overtreating, undertreating or overpricing customers. The FBI, for example, estimates that up to 10% of the US health care spending of about 3 trillion USD are due to existing fraud in the market.

There exist several studies about credence goods, yet none of them has focused on a heterogeneous customer base regarding different states of information towards the credence good. However, some empirical studies show that informed customers in markets for credence goods do exist, such as doctors and their family members or close friends seeking health care. Steffen incorporates these informed customers into a game-theoretic model about credence goods to analyze the influence of additional information in a credence good market on equilibria and overall social welfare. Findings suggest that increased shares of informed customers can lead to less welfare. Furthermore, information highlights the importance of seller's liability regarding efficiency and existence of fraud for markets with a single seller, while this importance shifts to the verifiability of the credence good for markets under competition.

Steffen Reik has been a research assistant at the Chair of Organization from October 2009 to August 2014. For more information, see page 5.

Theresa Süsser: Determining the optimal level of customization – A strategic analysis of costs and benefits in platform-based mass customization

Highly transparent markets induced by the wider adoption of the internet and a shift in consumers' demand towards increased product variety mark the present competitive environment, leaving the established manufacturing concept of mass production as unsuitable behind. In the recent past, more and more firms started to maximize the value that their customers derive from a purchase by allowing them to individually customize a product that closely matches their ideal preferences in a cost efficient way. This increasingly adopted manufacturing concept of mass customization enables firms to counteract the painful race to the bottom of the cost curve and to regain their competitive advantages. Regardless of whether you want to pick the best-tasting toppings for your cereals, select your favorite laptop color, or configure your preferred pair of trainers – today there exists “a high degree of customization across almost all industry segments”. Satisfying the broad scope of customer requirements comes, however, at the expense of increased costs and, thus, less profitability. In order to deliver highly differentiated products without forfeiting economies of scale, firms carefully consider how much customization, i.e. how many individually customizable options, to offer. Recent articles recognize the level of customization as critical strategic decision variable of firms. It is indeed observable that firms adopt different customization strategies, though operating in the same industry. While mi adidas offers custom-colored trainers and the option to imprint individual names and logos on the shoe, customers at NikeiD can additionally configure their optimal width and most comfortable insole. Despite the relevance for firms to strategically determine the optimal level of customization, extant work on product customization has not shed much light on this topic. In their quest to manage product variety

and costs, firms increasingly consider integrated product development approaches. One such widespread approach is platform-based product development, defined as the collection of assets that are shared by a set of products, which provides the technical basis for accommodating customization, managing variety and leveraging existing capabilities.

This dissertation project aims to combine the existing research on mass customization and platform-based product development, focusing explicitly on the trade-off between economies of scale from commonality and product distinctiveness from customization. The monopolist firm, serving a horizontally differentiated market, has not only to decide whether to adopt mass production or mass customization, but also on the optimal level of customization.

Theresa Süsler has been a research assistant at the Chair of Organization since March 2014. For more information, see page 4.

Wolfgang Weichenrieder: The Trade-Off between Localization and Global Efficiency

For the majority of the globally known brands and the corresponding companies international trade today is not only a implicitness, but nothing less than an indispensable must in the quest for sustained success and competitiveness. Regardless of the industry, the possible benefits of international trade are manifold, e.g. increase in sales volume and turnover or hedging against exchange rate risks, to name just a few.

A basic question when thinking about international trade is the consideration between integration on the one and localization on the other hand. Condensed to the essence stands the question: “Should we harvest the potentials by increasing production capacity in the existing plants in our home country or by setting up production abroad?”

The aim of the doctoral thesis is to analyze the influence of a range of determining factors in the decision making processes of internationally acting companies on the question internalization vs. localization. A model is developed, that depicts interdependencies between various factors and generates forecasts on the decisions companies take under given premises in competitive games. A special focus is put on the analysis of the effects of a “buy local” customer preference.

Wolfgang Weichenrieder studied Business Administration and Business Economics at the University of Regensburg. Since 2007 he has been an external PhD-student at the Chair of Organization Theory at WHU. Currently he is logistics project manager at the AUDI AG.

DISSERTATIONS

Friedrich Droste: Star Wars: The Strategic Manipulation of Electronic Word-of-mouth – A Game-theoretic Analysis

The strategic determination of prices and the use of advertising are the traditional ways for firms to signal quality and by this means to persuade consumers of their products. While consumers are facing ex-ante uncertainty about the true product quality of experience goods due to the asymmetric distribution of information firms can reduce the arising insecurity by establishing an adequate reputation through the provision of high quality products.

The Internet and especially advancements in communication technologies have created additional ways for consumers to get information about product characteristics. From a consumers perspective electronic word-of-mouth in the form of Third-party intermediaries, public forums, social media, and product reviews facilitate the acquisition of relevant information and account for a higher market transparency with regard to product qualities in certain markets. Due to the perpetually availability of information firms are able to infer consumer preferences by observing the information exchange in these channels. However due to the bilateral exchange of product experiences firms are no longer able to completely control the expectation formation process of consumers. The anonymity of the Internet allows all market participants to heavily engage in word-of-mouth communication at no charge. Hence firms aim at achieving competitive advantages by infiltrating the electronic word-of-mouth with fake reviews and false product information thereby influencing consumers' ex-post information and the decision-making process of following consumer groups.

So far, good-mouthing about own product information or distributing faked negative

eWOM about the competitor's product have been identified as equilibrium strategies. In a two-period model with Electronic word-of-mouth the dissertation identifies inverse good-mouthing, i.e., good-mouthing the competitor's product rating, as a profitable strategy. The dissertation strongly draws on research in information economics, the advertising literature, and reputation theory. Multiple game-theoretical analyses investigate and analyze innovative manipulation strategies in order to deepen the insights of how electronic word-of-mouth influences the behavior of consumers and firms and hence changes competitive market structures. The results augment the firms' strategic options and shed new light on the use of hidden word-of-mouth dynamics.

At first sight, this strategy seems quite counter-intuitive, because good-mouthing the competitor's product induces an enhancement in demand for the manipulated firm in the upcoming period and, by analogy, a reduction of demand for the manipulating firm's own product. Thus, the implementation of this strategy includes some form of demarketing as manipulating the competitor's product rating upwards leads to a lower perceived value of the firm's own product from a consumer perspective. With inverse good-mouthing, the firm with the originally superior product moves the competitor's rating above its own product rating. Thus, the manipulating firm generates a high share of opinion leaders (i.e., consumers in the first period) who are dissatisfied with the inferior product.

Consequently, inverse good-mouthing evokes highly negative eWOM for the inferior product which leads to a large loss of demand in following periods, i.e., in the follower market. At the same time, all opinion leaders are satisfied with the superior product which leads to positive eWOM about this firm and a demand enhancement in the follower market in subsequent periods. From a practical point of view, inverse good-mouthing is very subtle and hard to identify for consumers and the

manipulated firm. Consumers might well anticipate that firms have incentives to strategically manipulate their own product ratings upwards; however, the strategy of inverse good-mouthing is almost impossible to anticipate and detect. Firms evaluate positive eWOM or an increase in their product rating as a sign for a good match of product characteristics and actual consumer preferences without suspecting that fake reviews posted by their competitor might be the underlying drivers of the product rating. Besides the indirect creation of negative eWOM about the competitor's product and the associated long-term reputation damage, inverse good-mouthing can induce false inferences about changes in consumer preferences.

Dr. Friedrich Droste has been a research assistant at the Chair of Organization from December 2009 to March 2013. Currently he is Manager CFO-Office / Executive Assistant to the CFO at Henkel AG & Co. KGaA in Düsseldorf.

Ralf Widtmann: Intermediation vs. Disintermediation – A Borrower's Perspective

Peer-to-Peer platforms are the major innovation in the banking industry by enabling individuals to lend to one other without a bank as an intermediary. The internet supports the oldest form of money lending by making personal lending possible without the former requirements of geographic or social proximity. In 2012 most countries had a couple of competing platforms. The two US flagship platforms Lending Club and Prosper passed the important psychological barrier of one billion dollars lent in April 2012.

Ralf Widtmann studies a location game of a personal lending platform after its entrance into an oligopolistic banking market. The consumers (the borrowers) are located around the perimeter of a Salop circle and can either borrow from the platform competing with all

banks or from one of the banks. Two horizontal differentiation criteria are used to capture the different parameters in the local and the global competition. Transportation costs capture the switching costs in the initial local competition between the banks. Another location dependent parameter is introduced to capture the borrowers' preferences regarding the interaction with a bank or with a platform. The platform's location decision reflects the degree of intermediation (number of functionalities) it offers. The distance to the banks is a taste criterion from the borrower's perspective, but influences the platform's production costs.

Ralf Widtmann shows that the optimal strategy for the platform is driven by the relationship between the parameters production cost advantage and the intensity of the preferences. Maximal differentiation is the optimal strategy when the production cost advantage exceeds the transportation costs (intensity of preferences). He extended the models build on Salop circles with centres by introducing a second spatial differentiation criterion and linking the location (design) decision to the production costs function.

Ralf Widtmann studied Economics and Business Administration at the Vienna University of Economics and Business (1998-2004). He was microfinance consultant for FWFB in India, board assistant for Allianz and finally manager for the financial services team of Roland Berger Strategy Consultants. In 2012 he founded his own strategy consultancy.

RESEARCH PROJECTS

Peter-J. Jost: Dynamic Contests with Multitasking: The Case of Soccer

We model a soccer match between two heterogeneous teams as a two-stage contest where each team chooses its attacking and defending effort for each half of the match. We characterize the optimal teams' efforts as well as the optimal effort allocation between offense and defense. In contrast to the theoretical literature on soccer we show, for example, that the leading team may preempt its competitor in the first half. Our analysis also sheds new light on empirical studies that investigate the change in winning points on the number of ties by showing that this effect depends crucially on teams' heterogeneity.

Peter-J. Jost, Stefanie Schubert and Miriam Zschoche: Incumbent Positioning as Determinant for Strategic Response to Entry: Evidence from the High-Quality Restaurant Market (under review for Small Business Economics)

Extant research has identified diverse firm characteristics that determine an incumbent's reaction towards market entrants. This study widens the perspective from a firm's absolute attributes to its relative positioning within its competitive environment. In doing so, the study integrates theoretical and empirical methods. First, we derive hypotheses from a game-theoretic analysis. On a vertical dimension, we predict a stronger quality and price reduction of firms positioned at the higher end of quality and price before entry, than at the lower end. On a horizontal dimension, we interpret firms' product varieties as attributes and argue for a non-monotonic relationship between a firm's positioning and its reaction towards entry. As a second step, an empirical analysis using a novel dataset of the high-quality restaurant market in Germany verifies the theoretical assumptions.

Peter-J. Jost and Miriam Zschoche: Efficient Organization of Dynamic Capabilities: Exploiting Complementarities by Organizational Bundling

A firm's ability to change is decisive for sustaining its competitive advantage in a volatile business environment. This study complements extant research that emphasizes the importance of human resources as a key determinant of a firm's "dynamic capability" by applying an organizational viewpoint. Building theoretically on the interplay of strategy and structure, we argue for the following relationships between structure, strategy, and performance: First, the better the fit of strategic, coordinative, and motivational capabilities, the more successful are firms' change projects. Second, this fit of change capabilities will be higher when they are bundled in one organizational unit. Third, the establishment of an organizational unit that concentrates change capabilities is determined by the type of change projects and the dynamic of the business environment. A management survey involving German firms supports our hypotheses.

Peter-J. Jost and Stefanie Schubert: The Effects of the Three-Point Victory Rule on a Soccer Team's Strategic Behaviour

This paper analyses the impact of the three-point victory rule on contest incentives in soccer, which had the objective of more attractive competitions by a larger number of goals. A game-theoretic analysis is presented, where soccer is modeled as a two-stage contest between two heterogeneous teams. Teams choose their optimal number of attacking and defending players in both halves of the game, which determines the probability of scoring a goal and the outcome of the match. Using data from different seasons of the German Premier League (1. Bundesliga), we find that the more defending and the less attacking players, the higher the probability of winning a match. Our data does not support the three-point victory

rule with respect to an increase in the number of goals.

Peter-J. Jost (joint with Achim I. Czerny and J. van Ommeren): Why Pay for Jobs (and Not for Tasks)?

We address the question whether a prize should be rewarded for tasks or whether one prize for jobs yields the better incentives to invest in efforts. We show that from the principal's perspective the ranking of tournament designs crucially depends on a prize diluting effect and a noise effect. The prize diluting effect captures that multiple tournaments require several winner prizes, so the agents' incentives to exert effort in each tournament diminish. This effect makes single tournaments more attractive. However, the noise effect which captures the size of the marginal winning probabilities under different tournament designs, may make a single tournament less attractive because the variance of random terms which determine the agents' incentives to invest in effort is affected by the type of tournament design. We analyze this trade-off in different setups. In particular, we find a clear advantage of a single tournament relative to multiple tournaments when random errors are identically normally distributed. This result also holds when errors are correlated between tasks and between agent's productivity."

Anna-Rohlfing-Bastian and Peter-J. Jost: Benefits of Delegating Decision Authority: An Incentive Contracting Perspective

The paper analyzes the benefits of delegating decision authority to lower hierarchical levels in an environment with moral hazard and limited liability. A principal as firm-owner is confronted with a series of projects which require the productive input of two agents. As projects differ with respect to their task-related issues, the coordination of the agents' activities is essential. We answer the

question of whether the principal should be in charge of coordination (centralization) or one of the agents (decentralization)? We explain the existence of both organizational structures on the basis of pure incentive consideration and show that decentralization can be optimal for the principal. As an extension, we explain under which circumstances it is beneficial for the principal to also delegate the incentive contracting authority to the coordinating agent (contract decentralization).

Friedrich Droste, Peter-J. Jost and Anna Rohlfing-Bastian: Star Wars – Strategic Use of Hidden Word-of-Mouth Dynamics

The development and dispersion of the Internet has enabled consumers to bilaterally exchange product consumption experiences. The resulting electronic word-of-mouth (eWOM) information is perceived to be unbiased, authentic, and not in the interest of the producing firms (Dellarocas 2003). As a consequence, eWOM communication has become the most influential information source for consumers when it comes to making purchasing decisions (e.g., Godes et al. 2005, Godes and Mayzlin 2004). Doh and Hwang (2009) showed in an experimental setting that roughly 98 percent of online customers referred to eWOM information (online customer reviews, forums, and chats) prior to making a purchasing decision. Accordingly, firms have an incentive to either incorporate eWOM directly into their marketing strategies (e.g., Shaffer and Zettelmeyer 2002, Chen and Xie 2005, 2008, Chen, Liu, and Zhang 2012) or to manage the product rating and consumer belief dynamics by posting fake reviews (Hu et al. 2011, Hu and Koh 2012). The latter is particularly possible as the anonymity of the Internet does not allow consumers to differentiate between true and manipulated reviews (Friedman and Resnick 2001).

PUBLICATIONS

- Jost, Peter-J. (2014): *The Economics of Motivation and Organization: An Introduction*. Edward Elgar, Cheltenham, 441 pages.
- Jost, Peter-J. (2014): *Das Subsidiaritätsprinzip aus organizationstheoretischer Perspektive*, in: Wulf, A.K., M. Schmidt and A. Schwartze (eds.): *Festschrift zu Ehren von Christian Kirchner – Recht im ökonomischen Kontext*, Mohr Siebeck, Tübingen, pp. 1197-1210.
- Jost, Peter-J. (2014): *How to protect your premium product from low-price competitors: Price, quality, or portfolio adjustment?* *International Journal of Research in Marketing*, 31, (3), pp. 253-265.

Personal- und Organisationsforschung, November 7–8, 2013, München.

- Miriam Zschoche: *The Effects of Competition among Service Firms from the same Country-of-origin Abroad*, MiDi Workshop Deutsche Bundesbank, November 28, 2013, Frankfurt am Main.
- Miriam Zschoche: *The Effects of Competition among Service Firms from the same Country-of-origin Abroad*, European Annual Conference of the International Business Academy (EIBA), December 12-14, 2013, Bremen.
- Miriam Zschoche: *Gaining Legitimacy from Family and Stock Owners*, Annual Conference of the Verband der Hochschullehrer für Betriebswirtschaft e.V., June 11-13, 2014, Leipzig.

PRESENTATIONS

- Stefanie Schubert: *The Effects of the Three-Point Victory Rule on a Soccer Team's Strategic Behavior*, 5th ESEA European Conference in Sport Economics, September 18-20, 2013, Esbjerg (Denmark).
- Peter-J. Jost, Stefanie Schubert and Miriam Zschoche: *Incumbent Positioning as Determinant for Strategic Response to Entry: Evidence from the High-Quality Restaurant Market*, GEABA Annual Conference, September 25-27, 2013, Magdeburg.
- Miriam Zschoche: *Exploiting Complementarities by Organizational Bundling* (with Peter-J. Jost), Annual Meeting of the Arbeitskreis Empirische

REFEREE ACTIVITIES

- Referee and Scientific Advisor for the Regular Program of the German-Israeli Foundation (GIF).
- Comparative assessment for the „Wissenschaftspreis der Kurt und Felicitas Viermetz Stiftung 2013“ at the University of Augsburg.
- Review of submissions to the XV. Symposium zur ökonomischen Analyse der Unternehmung 2014.
- Assessments for the admission of WHU students to the Studienstiftung des Deutschen Volkes.
- Journal article reviews
- Small Business Economics
- Review of Managerial Science

XIV. SYMPOSIUM ZUR ÖKONOMISCHEN ANALYSE DER
UNTERNEHMUNG

ANNUAL CONFERENCE OF THE GERMAN ECONOMIC ASSOCIATION OF BUSINESS
ADMINISTRATION

SEPTEMBER 25-27, 2013, UNIVERSITY OF MAGDEBURG

As chairman of the German Economic Association of Business Administration, GEABA, e.V., Peter-J. Jost organized the 2013 annual conference. The location this time was the University of Magdeburg.

The topic “Behavioral Corporate Strategy” was first highlighted from different perspectives in an open session by three guest speakers:

- K. M. Schmidt, LMU München,
Chair of Economic Theory:
"Behavioral Contract Theory"
- U. W. Thonemann, Universität zu Köln,
Department of Supply Chain Management

and Management Science:
"Behavioral Contract Design in Supply
Chains"

- T. Mellewigt, FU Berlin,
Chair of Strategic Knowledge
Management:
"Behavioral Strategic Management"

In the following two days, 33 researchers presented their papers. The best young researcher finally received the “Walther-Rathenau Award“ and a cheque of 500 Euro donated by GEABA.

