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# KnowledgePills

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EXECUTIVE EDUCATION

# Does sending managers abroad lead to immoral behaviors?

## The dark side of foreign experiences also affects students

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**The 2[st] century is undoubtedly the most multicultural period of human history. Numerous managers not only take the initiative to immerse themselves in other cultures but also urge their employees to do the same. Graduates are encouraged to participate in programs abroad, and the number of international students worldwide is expected to skyrocket to between 7 and 8 million by 2025.**

Foreign experiences are no doubt trendy. But new research by ESADE Associate Professor Jordi Quoidbach in the *Journal of Personality and Social Psychology* proves that these experiences can come at a moral price.

“Prior research has focused on the **bright side of foreign experiences** and how they can increase creativity, decrease bias and improve trust. We wanted to explore whether these experiences abroad also possessed a dark side,” says Prof. Quoidbach.

In their findings, the researchers argue that one unexplored, yet important possibility is that living abroad leads individuals to think and act in a **morally flexible and relativist manner**: “Although foreign experiences empower people to break mental rules, they may also dispose people to **bend moral standards**, thereby increasing their tendency to behave unethically after living abroad.”

### Jordi Quoidbach

Prof. Jordi Quoidbach specializes in emotion and decision-making. He completed his Ph.D. in Psychology at the University of Liege before spending several years as a Postdoctoral Fellow at Harvard University.

His research explores the temporal determinants of choice and happiness. In particular, he is interested in understanding how people's memories of past experiences and anticipation of future experiences shape the decisions they make, the emotions they feel and their overall happiness in the present. His work highlights novel perspectives on increasing happiness and helping individuals make better professional and personal decisions.

His research has been published in journals such as *Science, PNAS, Psychological Bulletin* and *Psychological Science* and is often covered in popular media such as CNN, the BBC and *The New York Times.*


The authors ran eight behavioral studies with participants to understand when and why foreign experiences can lead to **immoral behavior after living abroad**. In the experiments, participants were asked to perform multiple tasks and try to solve specific problems, with the incentive of a bonus or a gift if they solved the tests correctly.

In one of the studies, high-school students were offered a chance to win an iPad by completing a series of anagrams, one of which was impossible to solve – **students who reported solving it were cheating.** Participants were surveyed before, during and after a 6- or 12-month study abroad program. Before going abroad, 30% of the students cheated on the task. After 12 months abroad, cheating increased to 48%.

**The trigger: moral relativism**

As the antithesis of moral absolutism, moral relativism dictates that “right” or “wrong” are relative because moral beliefs are subjective and vary from culture to culture. “We hypothesized that because the well-traveled are accustomed to being immersed in different cultural environments, they tend to develop a **more flexible sense of right and wrong**. In other words, they are more susceptible to moral relativism, which has been found to result in immoral behavior.”

People who adopt moral relativism have **more relaxed moral standards** in general, and thus also have greater tolerance toward both one’s own and others’ transgressions.

“Although foreign experiences empower people to break mental rules, they may also dispose people to bend moral standards, thereby increasing their tendency to behave unethically after living abroad”

“As people abroad come into contact with foreign cultures, they may learn to appreciate that different cultures uphold **different standards on the same moral issues**, and consequently, they interpret moral rules and principles as culturally based rather than absolute. In our experiments, we demonstrate how this relativistic approach makes people increase their immoral behavior after living abroad,” the authors argue.

**More countries make it worse**

Not all foreign experiences induce moral relativism to the same degree. The **level of immorality** varies depending on the number of countries people have visited. The results show that participants who had visited more countries were more likely to cheat on the tasks, even if there was no monetary incentive for the immoral behavior.

In one study involving MBA students, the **number of countries** participants had lived in—as opposed to the amount of time they had lived abroad—positively predicted their willingness to use immoral negotiation tactics.

“Our results predict that people who have been abroad in many foreign countries are **more likely to embrace immoral behavior** compared to those who stay in a single country,” says Prof. Quoidbach. Why? “Compared to a longer stay in a single country, multiple foreign experiences increase immoral behavior by inducing more relativism.”

**Business implications**

Although foreign experiences can indeed foster creativity and innovation, education and business practitioners should be aware of the moral slippage that can come with extensive overseas travel. Companies should think carefully before assigning several overseas postings to the same manager in close succession.

“We propose that one way to counteract potential unethical behavior is for companies to reinforce moral absolutes by **committing to values and codes of conduct**. For example, organizations could resort to severe punishments if their members cross a firmly espoused moral line. This way, individuals would be conscious of the terrain wherein they should not travel,” the authors conclude.

“Our results predict that people who have been abroad in many foreign countries are more likely to embrace immoral behavior compared to those who stay in a single country”

# 3 ways artificial intelligence can set you apart from the competition

**Artificial intelligence (AI) is a hot topic in business. Experts estimate that the AI market will grow exponentially, becoming a $36 billion business by 2025. Are companies ready for this revolutionary change? How can they take advantage of intelligent systems to become more competitive?**

All companies, without exception, are searching for the same holy grail: finding a sustainable competitive advantage that allows them to build temporary monopolies and move away from the **relentless struggle of the "red ocean,"** where companies are stuck competing against each other for the same market space.

"Real **competitive advantage** doesn't come from competing with similar products or ideas, making processes more effective or increasing productivity. This approach will never get you anywhere, as you'll only achieve a limited competitive advantage," warns ESADE Lecturer Esteve Almirall in his latest article in *Harvard Deusto Business Review*. "Real competitive advantage appears not from competing with similar business proposals, but with **disruptive ideas** that hold great potential, and this is only possible with innovation."

**Innovation and artificial intelligence: the holy grail of business**

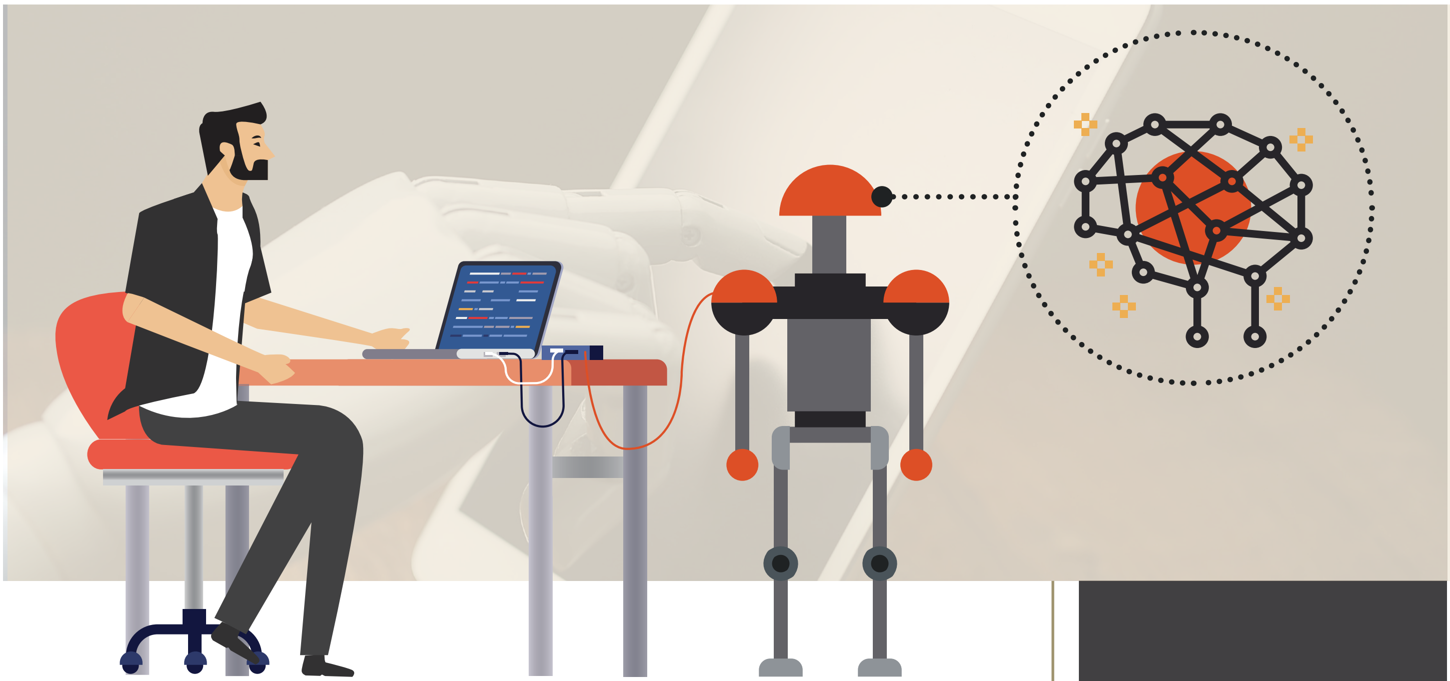
Companies can use **innovation to compete** in many ways – not necessarily through technology. However, when disruptive technologies promise a whole new universe of **potential solutions**, these can become the number-one key to gaining a competitive advantage in business.


## Esteve Almirall

Esteve Almirall's career has focused on information technologies, especially in the fields of consulting, banking and finance. He worked for more than 20 years in executive and board-level positions in IS, organization and marketing. As an entrepreneur, he founded and actively participated in several start-ups in these fields.

Prof. Almirall is passionate about the intersection between technology and innovation. He is interested in how IT is changing the way we innovate from the individual inventor to ecosystems, from buying and owning innovations to benefiting from innovations created by others through the alignment of incentives and motivations.

In Europe, the United States and Asia, Prof. Almirall is a well-known speaker in fields such as open innovation in the public sector, smart cities and living labs. He is a World Bank consultant, council member of the European Network of Living Labs, and a member of the European Commission's Open Innovation Policy and Strategy Group.



"Artificial intelligence emerged in the sixties and it has experienced ups and downs – 'hype' periods followed by drought winters. The reality hasn't lived up to the promise just yet," says Prof. Almirall.

What has changed since the sixties? How will advances in AI accelerate in the near future? According to Prof. Almirall's article, two main areas – **technology** and **data** – are leading the way to a promising AI future.

**Technology and artificial intelligence**

In 2012, when Andrew Ng presented his results at the Google X Lab after examining 10 million YouTube video thumbnails, his results started a revolution that was dubbed "deep learning." Andrew used a neural network based on 16,000 processors and one billion connections that allowed him to identify human faces with an 81.7% successful match rate. This **technological revolution** later led to self-driving cars and algorithms that can transcribe voices better than humans or beat humans at any game.

**Data and artificial intelligence**

"Data is the second element that is leading the way to a promising future for artificial intelligence. Data is the new oil, we often hear, especially big chunks of data. Yet **data can be meaningless if not used properly**," says Prof. Almirall. His findings offer a word of caution: "Having access to large amounts of data doesn't automatically give companies a competitive advantage. It is not about how much data you have, but about your **capacity to use the data** in an effective way that creates value."

"Artificial intelligence emerged in the sixties and it has experienced ups and downs – 'hype' periods followed by drought winters. The reality hasn't lived up to the promise just yet"

Data and artificial intelligence are reshaping how businesses compete. The new deep-learning algorithms in artificial intelligence have two unique characteristics: they require a **large amount of data** and they are capable of **learning without supervision**.

"Companies that have access to technology and have a business structure in place that allows them to extract value from data will be the ones that benefit from a **sustained competitive advantage**, improving their capacities constantly and autonomously."

**3 ways artificial intelligence can set your business apart**

### 1. Universal technology

Artificial intelligence is a **universal technology** – it can be applied to any business, regardless of its scope or area of expertise. Adding artificial intelligence to any process or product, no matter what it is, will bring value to your business.

### 2. Marginal cost close to zero

At scale, the **marginal cost of applying artificial intelligence** is close to zero. Once sufficient scale is reached, the cost of adding an additional search, detecting another face or identifying another car on a highway is practically zero.

### 3. Infinite scalability

Since new functionalities are implemented in code without human intervention and these implementations normally take place in cloud platforms, it is possible to **scale and de-scale extremely quickly** and at a very low cost.

> "Data is the second element that is leading the way to a promising future for artificial intelligence. Data is the new oil, we often hear, especially big chunks of data. Yet data can be meaningless if not used properly"

# David versus Goliath: can individual consumers determine the success of a boycott?

**What's the key to a successful boycott? Most boycotts fail: companies have overwhelming power compared with the consumers who ask them to behave more fairly by refraining from purchasing their products. The reasons for this failure are diverse and complex, but most boycotts suffer from two issues: free-riders and the small agent problem.**

**Free-riders** are consumers who are not willing to participate in the boycott but will benefit from its success. The **small agent problem** is the challenge that consumers who are willing to start a boycott face before the number of boycotters grows large enough to cause trouble for the company.

Researchers have usually analyzed these problems from a cost-benefit perspective. If consumers feel that the **benefits of a successful boycott** are higher than the cost of participating in it, they might participate. If it's the other way around, they are less likely to join the boycott. This applies for nearly all consumers. However, according to ESADE Professor Tobias Hahn, rather than just joining a boycott on a cost-benefit basis, some consumers have much more influence.

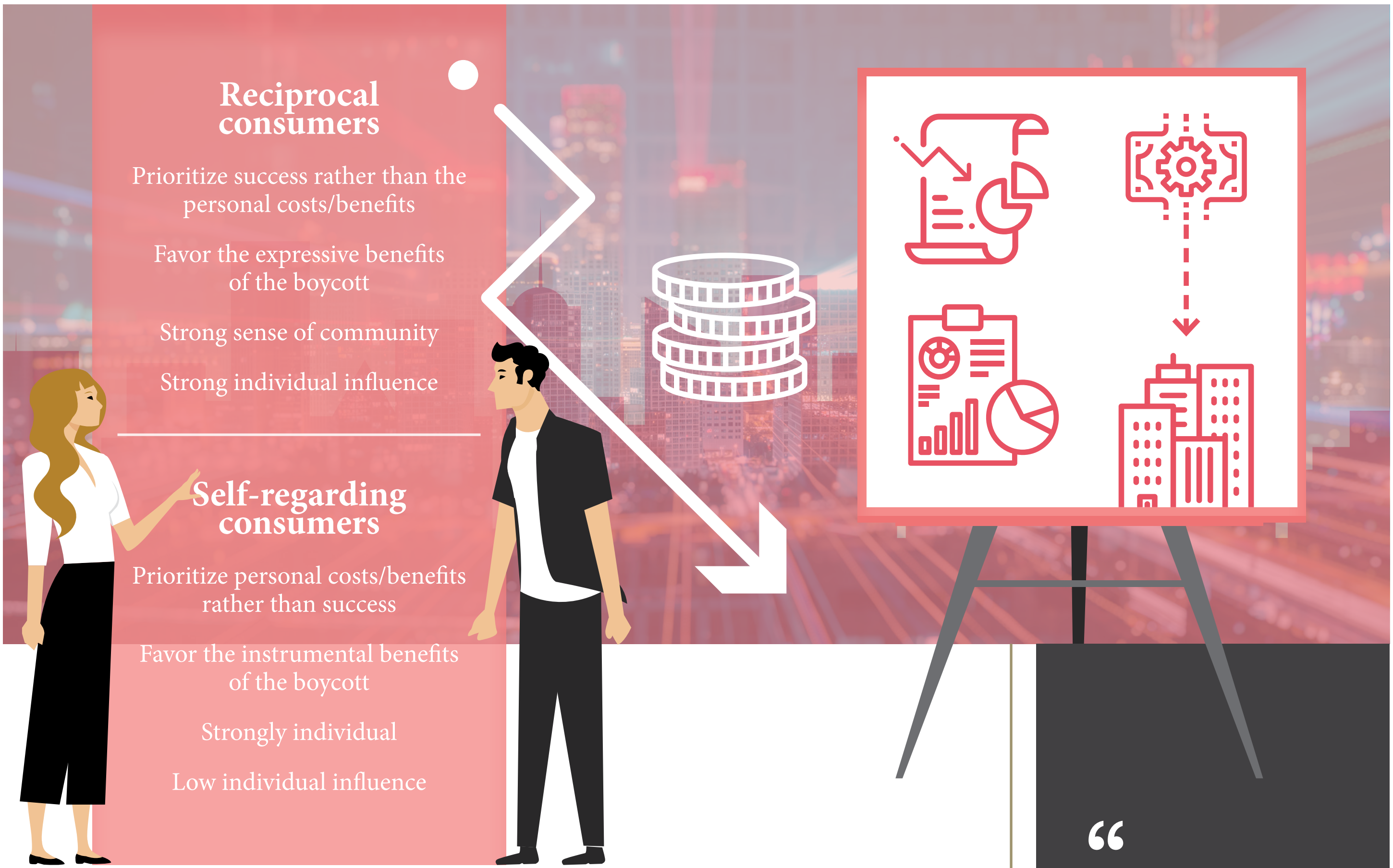
In a paper published in the *Journal of Business Ethics*, Prof. Hahn and his co-author Noël Albert of Kedge Business School consider the influence of strongly reciprocal consumers on other consumers and **boycott-targeted companies**. Many consumers are self-regarding: they join the boycott if the benefits outweigh the costs. These consumers are more likely to become free-riders and impede the success of the boycott.


## Tobias Hahn

Tobias Hahn is Professor in the Department of Social Sciences at ESADE. His main areas of expertise are in corporate sustainability and corporate social responsibility. His research interests include tensions and paradoxes in corporate sustainability and CSR, sustainability performance assessment, corporate sustainability strategies and stakeholder behavior.

Prof. Hahn is a Senior Editor of the journal *Organization & Environment*. He also serves as an editorial board member for the journals *Academy of Management Review, Journal of Business Ethics, Business & Society* and *Business Strategy and the Environment.*

Prof. Hahn is also the president of the Group for Research on Organizations and the Natural Environment (GRONEN).




Other consumers, however, will participate in the boycott even if the costs outweigh the benefits. These consumers are **motivated by reciprocity**. Evidence from economic experiments shows that 40-60% of people are willing to respond to friendliness with friendliness and to punish those who are unfriendly, even if this comes at an additional cost. In other words, they behave as strong reciprocators.

Strongly reciprocal consumers focus more on the expressive benefits of a boycott – the emotional experience, the opportunity to express their values or to **display anger towards the contested practices** of the target firm – rather than the instrumental benefits (ending the company's contested behavior). For them, punishing the misbehavior of the target firm is a value in itself. Even more importantly, these consumers are willing to encourage other consumers to participate in the boycott.

Research suggests that people of this sort can influence self-regarding consumers to behave according to social norms. In one set of experiments, people were asked to split a given sum with another player. When one player was able to punish unequal offers by reducing his or her own payoff, self-regarding players tended to be more fair in their offers. "The threat of negative sanctions by strong reciprocators makes it rational for self-regarding actors to issue fair offers to avoid the sanctions and the associated loss of their share," explains Prof. Hahn.

> "Evidence from economic experiments shows that 40-60% of people are willing to respond to friendliness with friendliness and to punish those who are unfriendly"

Moreover, **reciprocal consumers are more sensitive to unfair practices** by companies. Perception is key when it comes to starting or joining a boycott. Self-regarding consumers are very sensitive when they are harmed by unfair practices – such as unfair marketing practices or price increases – but not in cases that do not affect them directly. Reciprocal consumers, however, are willing to retaliate on behalf of third parties affected by a firm's unfair behavior, even if they are not affected.

Internet and social media have offered visible platforms where boycotters can **blame those who do not participate in a boycott** and build a sense of community among boycotters.

Because of their willingness to participate, stay committed and even push self-regarding consumers to take part, **reciprocal consumers are the key to any boycott**. These customers increase the likelihood of success and the expected benefits, which, in turn, makes the boycott more appealing to other self-regarding consumers.

Although the boycott literature suggests that individual consumers have **little incentive to engage in boycotts** because they are unlikely to have an impact on the targeted firm, Prof. Hahn believes that "strongly reciprocal actors can produce a robust stock of boycotting" that can overcome the high starting costs of these collective actions. This perspective "re-empowers individual consumers, in contrast to the futile position described by the cost-benefit approach," explains Prof. Hahn.

Prof. Hahn's research could help companies gain a **better understanding of consumer behavior** in response to contested business practices and help NGOs – which play an essential coordination role in boycotts – to induce these committed consumers to exercise their influence and help boycotts succeed.

As an example of a successful action led by an NGO, in 2011 Greenpeace launched a boycott against KitKat, a Nestlé brand, for using palm oil from sources that might be destroying orangutan habitats. Greenpeace gave consumers easy-to-use materials and called for action through Facebook. Thousands of users responded by posting critical comments on Nestlé's Facebook page, which eventually turned into a platform for sanctioning the company as well as regular consumers.

"Internet and social media have offered visible platforms where boycotters can blame those who do not participate in a boycott and build a sense of community among boycotters"

# Are eurozone countries more prone to financial risk?

**The financial crisis reopened the debate about the long-run sustainability of the euro. Today, the monetary union is under scrutiny. Will the euro be sustainable in the long term? Are eurozone countries more exposed to financial risk?**

ESADE Professor Fernando Ballabriga and Associate Professor Carolina Villegas raise questions about the **euro's financial integration** in an article published in the *Journal of Common Market Studies*. According to their findings, the eurozone is coming up short in its mission to guarantee financial stability for member states.

"Financial integration was expected to **play a leading role** in the potential success of the eurozone. Our article documents the failure to fulfill this expectation," the authors warn.

"We provide evidence supporting the claim that progress in financial integration has not led to effective **risk-sharing mechanisms** across EU members. As a result, monetary union members face higher income fluctuation risk."

**Productivity split between North and South**

The current eurozone difficulties, the authors argue, seem to suggest that the euro has hampered structural reforms. It has also favored a **split between countries** specializing in high-productivity sectors and those specializing in low-productivity ones.

## Fernando Ballabriga

Prof. Ballabriga's teaching and research activities fall into the field of macroeconomics, with a focus on international and applied dimensions. An important part of this activity has concentrated on follow-up and analysis of the European Economic and Monetary Union and its adaptation to the global economic context.

Concomitant to his academic and professional work has been the link with macro policymaking institutions. Prof. Ballabriga has been an Economic Advisor to the European Commission (2000-2003) as well as a Policy Research Advisor to the Bank of Spain (1990-1999) and to the Spanish Ministry of Finance (1988-1990).

Prof. Ballabriga has also acted as a link to the realities of the business world through his participation in MBA and Executive Education programs.

"Southern European countries have been especially **vulnerable to global competitors** and the impact of the crisis. What we find is that specialization has been enhanced, but in the direction of **increasing the productivity distance** between North and South," says Prof. Ballabriga.

After the introduction of the euro, Southern European countries like Spain, Italy, Greece and Portugal experienced, on average, an **increase in sector specialization**, yet mostly in low-technology industries.

Northern European countries, on the other hand, experienced accelerated specialization growth in high-technology sectors.

This specialization split between Northern and Southern European countries has **negatively affected productivity** in the South. Part of the lower productivity growth in Southern Europe is related to the boom in the construction sector and the shift of financial resources from traded to non-trade sectors.

"Our results suggest that sectors with higher specialization in the eurozone are more productive, but this **positive effect on productivity** is lower in Southern European countries," says Prof. Villegas.

## Carolina Villegas

Prof. Villegas's research focuses on international economics and finance and, in particular, on evidence of financial integration and growth. She has conducted research on capital flows and convergence, the determinants of foreign direct investment, and the durability of flexible exchange rate regimes.

Following recent trends in the literature, she uses micro-level data (i.e. data at the firm level) to answer traditional macroeconomic questions. She has focused on the role of well-developed local financial systems as a precondition for positive productivity spillovers derived from the presence of multinational companies.

Prof. Villegas has also been involved in policy work. She was a research fellow at the Université Libre de Bruxelles and an external short-term consultant for the World Bank.

**Higher financial risk**

One of the expected benefits of the adoption of the euro was an **increase in financial integration** among eurozone countries. However, the expected financial integration has not led to improvements in risk-sharing. “In order to be helpful, financial integration has to be sufficiently deep. When it is just incipient and dominated by plain borrowing, integration may actually end up having negative results,” the authors warn.

“The euro initiated a process of financial integration that was mainly dominated by the South’s borrowing of from the North, eventually leading to a **highly indebted South**. This is clearly not an integration process that would be expected to provide risk-sharing improvements.”

**Club of non-equals**

The findings point to a **failure in the task of fulfilling financial integration**. Progress in financial integration has favored a specialization split between countries with low- or medium-technology productive structures and those which are high-tech. As a result, monetary union members face higher income fluctuation risk without enhanced insurance protection.

“Our evidence suggests that the specialization split has led to different impacts on sector productivity, negatively affecting those euro members specializing in low-medium technologies, thus helping to make the monetary union a club of non-equals.”

“Our evidence suggests that the specialization split has led to different impacts on sector productivity, negatively affecting those euro members specializing in low-medium technologies, thus helping to make the monetary union a club of non-equals”

# The 8 Ms of artificial intelligence marketing

**Since 1960, when Jerome McCarthy proposed the four Ps of marketing – product, promotion, price and place – the world has changed substantially. Back then, there was no Internet, mobile phones were an utopia and only a few visionaries could envision smartphones as we know them today – not to mention the artificial intelligence revolution that is currently underway.**

In an article published in *Harvard Deusto Business Review*, ESADE Associate Professor Ivana Casaburi and marketing expert Manu Monasterio have proposed an update to McCarthy's concept: the 8 Ms of artificial intelligence marketing.

Although we do not see them in our homes, offices or streets, we are increasingly **surrounded by robots that use algorithms** to control enormous amounts of data and continuously make decisions. As Prof. Casaburi points out, robots control 90% of the information that exists about the market and the customers that companies wish to target. "Potential customers no longer want or accept marketing proposals that say – based on the good intentions and intuition of marketing managers, who have only 10% of the existing data on the market – that they 'could' satisfy the customers' needs," says Prof. Casaburi.

Clearly it's time to upgrade the 4 Ps to the 8 Ms developed by Prof. Casaburi and Mr. Sanchez-Monasterio:

### 1. Machine to machine

Communication between machines is essential in infinite aspects of daily life; the world of business is not an exception but a paradigm. Smart machines tell Wall Street brokers what assets to buy. At Amazon stores, humans play only a symbolic role, while robots do most of the work. And of course, iPhone's Siri manages our requests by contacting systems that have the information we need.

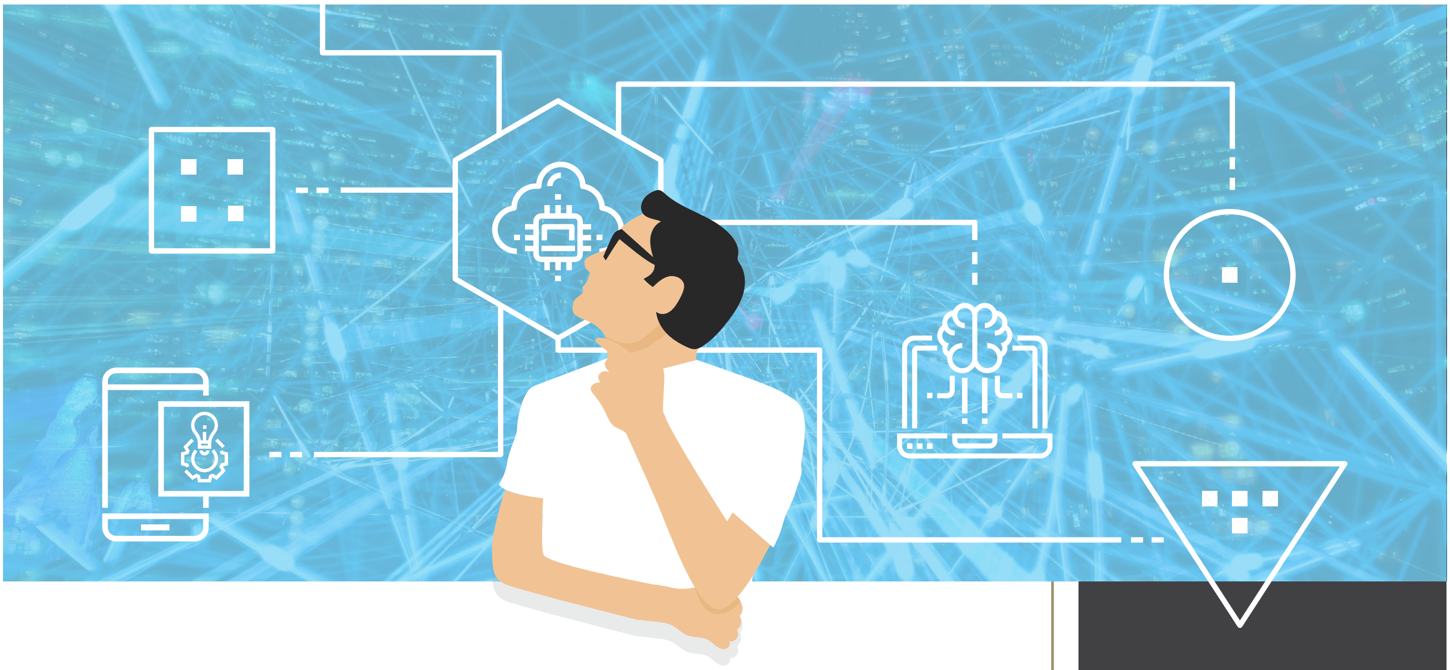

## Ivana Casaburi

Prof. Casaburi has combined teaching (in Italy, Spain, Chile, Portugal and China) with research and strategic consulting throughout her career.

Her areas of interest include building Chinese brands in Europe, marketing and selling in China, the luxury market in Asia, Spanish-Chinese cooperation and brand portfolio management in international markets.

Since 2009, Prof. Casaburi has been Visiting Professor at Peking University for the BIMBA program (Beijing International MBA).

She regularly takes part in international academic conferences as both speaker and moderator.



## 2. Man to machine

Although communication between machines is what allows robots to access the bulk of the available information, human leadership is essential. "We are the ones who direct the smart machines based on the strategic marketing variables that we indicate," says Prof. Casaburi, citing elements such as benchmarks, analysis of competitors, and positioning in price or place as key elements for converting data into smart data.

## 3. Managing smart data

Converting this huge volume of data into new customers and products or services that meet their needs is essential. To do this, it is necessary to manage the smart data generated by robots. One example of success in this regard is the American giant Walmart, which has combined online and offline data in order to continually adapt to its customers' needs.

## 4. M-Glocal

Smartphones have helped to democratize Internet access. More importantly, they have allowed this access to become ubiquitous in our lives. This has turned internet sales – which, in turn, is managed by robots – into an everywhere market. Look no further than "Chinese Black Friday": 90% of sales during this event – about €21.8 billion – were made through mobile phones.

> "Although communication between machines is what allows robots to access the bulk of the available information, human leadership is essential"

## 5. Making smart products

The product – one of the key elements of the classic marketing mix – has been and will be revolutionized by artificial intelligence. The future belongs to smart products that are “tailor-made and the result of work between smart machines and managers,” explains Prof. Casaburi. The iPhone X, Apple’s latest flagship, is the best example of smart product.

## 6. Marketing dynamic prices

Price is no longer a simple label. In real time, machines can combine the various factors that have traditionally conditioned pricing, including stock available in the warehouse, demand at the selling point, level of sales of the product by the competition, and the impact of marketing campaigns. Through its artificial intelligence system, Uber bases the price of its service on a personalized calculation of numerous factors, ranging from the time and place of travel to what each person is willing to pay.

## 7. Multi e-channels

Robots are not only going to make key decisions when designing, pricing and promoting products. Their influence has also reached distribution, with drones acting as more spectacular but not unique protagonists. TMall, a portal of the Chinese giant Alibaba, has already been delivering the iPhone X to customers via drones. Other companies such as BMW and Volvo have introduced holograms at their points of sale.

## 8. Machine-generated communication

Machines can also indicate the best means of reaching customers, a responsibility that now falls to creative directors. “Smart machines are capable of visualizing the most efficient means of getting a positioning proposal to the target customer," says Prof. Casaburi.

> “
> The future belongs to smart products that are tailor-made and the result of work between smart machines and managers
> ”

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