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# Research@Smith

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The Red  
Queen Effect



UNIVERSITY OF  
MARYLAND  
ROBERT H. SMITH  
SCHOOL OF BUSINESS

# May

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# Predicting stock performance with mutual fund portfolio disclosure

To predict the future performance of stocks, you need to know how heavily they are purchased by both successful and unsuccessful fund managers.



**K**nowing how the best mutual fund managers are choosing their portfolios can be valuable information for investors, if stocks picked by skilled fund managers really outperform those picked by unskilled managers. But it has been difficult to test this hypothesis, since it is not clear how to use fund holdings to pick stocks.

Russ Wermers, associate professor of finance, with co-authors Tong Yao, University of Arizona, and Jane Zhao, PanAgora Asset Management, developed a statistical model that predicts the future performance of individual stocks based on how heavily they are held or purchased by both successful and unsuccessful fund managers.

Rather than just looking at the results of winning funds, Wermers and his co-authors examined good, average and bad funds to see what highly skilled—and thus very successful—fund managers were buying in common, and what underperforming fund managers were not buying. The model uses a weighted average alpha to determine the outlook for a stock at the beginning of a given year, consisting of the portfolio weight on a stock multiplied by a manager's past alpha, summed across all managers who held that stock at the beginning of that month.

"You can't just consider how many winning funds bought the stock, you have to weight how much of it they purchased, and you also have to put some weight on the skill of the manager," says Wermers. "We considered the performance of every fund manager and use it as the main factor in the weighting of the outlook for a stock."

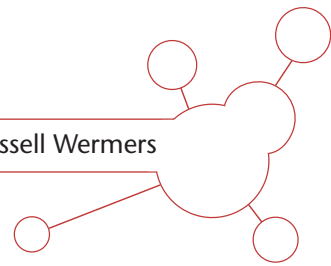
The result is a much more accurate prediction of stock returns than any previous model, and significantly better returns result even when adjusted for risk, beating previous methods by as much as 6 percent to 8 percent per year.

"Even controlling for all the risk factors that are already known in finance, this model seems to provide an independent source for stock-picks," says Wermers. "People have been poring over stock returns for decades now, trying to find a new angle, a new way to make money. We didn't expect to find something this big. Hedge funds in particular have shown interest in this research because they need an independent source of stock returns, above what is already known by the masses."

The model uses three stock alpha estimators to extract information about the future alphas of stocks from portfolio data for the cross-section of mutual funds. The net returns and portfolio holdings of actively managed U.S. domestic equity funds from 1980 to 2002 are used to show that these three stock



Research by **Russell Wermers**



alpha estimators consistently predict cross-sectional stock returns over the following year. Wermers and his co-authors also developed conditional stock alphas by taking into account stock characteristics and fund characteristics, and found that these characteristics helped to further improve the model. They found that smaller and older funds, and funds with lower expense ratios, higher turnover and higher industry concentration of portfolio holdings were more likely to exhibit persistent skills.

Because mutual funds only disclose portfolio holdings information on a quarterly basis, and because the funds have a 60-day grace period to file their holdings with the SEC, investors interested in using this model to predict stock returns are limited by the time lag in receiving information about what mutual fund managers are holding. Mutual fund disclosures are also staggered, so it isn't easy to obtain the information—for instance, some funds report their holdings in December, while others report in October. Wermers used a multitude of datasets to create the holdings data and returns data used in the study.

The model creates a much more accurate prediction of stock returns, and significantly better returns result even when adjusted for risk, beating previous methods by as much as 6 percent to 8 percent per year.

Wermers is interested in using this technology to develop stock signals for European and Asian stocks in the international stock arena. “We think there is a lot of potential in non-U.S. markets because those fund managers are more likely to have inside information, which is perfectly legal in some of those countries,” says Wermers. “We’re trying to find a source of reliable fund holdings in order to examine this data.”

“The Investment Value of Mutual Fund Disclosure” won the Best Paper award at the annual conference of Inquire-Europe, an international consortium of investment companies dedicated to bringing academic research into the public arena. For more information about this research, contact [rwormers@rhsmith.umd.edu](mailto:rwormers@rhsmith.umd.edu).



# Pricing online content

Marketing science helps the National Academies Press optimally price print and online versions of its content.

## AWARD-WINNING

**T**he publishing industry is going through a major transitional period as it tries to come to terms with the Web as a delivery platform for content. How can publishers keep their digital content from cannibalizing the market for printed material yet still provide new options to customers?

P.K. Kannan, Harvey Sanders Associate Professor of Marketing, helped the National Academies Press (NAP) develop a strategy that would maximize the revenue from both its traditional and new media offerings. Kannan and study co-author Sanjay Jain, from Texas A&M University, worked with Barbara Kline Pope of the NAP on a study that resulted in a new pricing model for the NAP's printed and online content. The paper based on the study won the coveted INFORMS Society for Marketing Science Practice Prize competition in October 2007.

One option the organization considered was to continue to sell printed material, but to distribute the PDFs online for free to meet one of NAP's goals to disseminate scientific knowledge widely. But Kannan found that this option would effectively cut the organization's revenue in half.

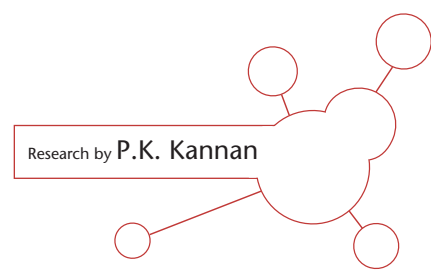
Customer purchase data was gathered from NAP's Web site based on an online experiment. The study

examined the choices made by more than 1,000 customers over a three-week period. The study focused on customers who showed interest in purchasing a book. Customers who had a printed book in their shopping carts and who pressed the checkout button were randomly intercepted with an offer for a PDF version of the title in their shopping cart. These customers were given information on the quality of the PDF, a clickable button to view the sample PDF, download time, and the price of the PDF version in U.S. dollars.

One in four customers who were browsing a book title were also intercepted at random after perusing five pages of content and presented with details of the PDF in the same way.

PDF prices were set at six levels relative to the price of the printed version of books, at 110 percent, 100 percent, 75 percent, 50 percent, 25 percent, and free. If a customer didn't choose a PDF version at the initial price level that was displayed, it was dropped to a lower level and the offer was repeated.

Rather than viewing differing forms of content as substitutes for each other, consumers sometimes viewed different forms of content as imperfect substitutes or even complements to one another. The degree to which a customer viewed the print edition of a book and its online PDF as substitutes or complements varied from customer to customer.



Research by P.K. Kannan

“You can’t make generalizations about what consumers want. And you have to be creative as you think about ways to provide value and extract consumer surplus.”

Using data from the study, the authors created a model using an innovative measurement technology to determine customer preferences for the various forms of content and recommend various pricing strategies by controlling for the marketing mix and introduction of new titles.

One result was surprising. “We found that many customers would pay more for the PDF than they would pay for the printed book,” says Kannan. “You can’t make generalizations about what consumers want. And you have to be creative as you think about ways of providing value and extracting consumer surplus.”

Kannan applied that creativity to the NAP’s pricing problem by bundling its content in a variety of different ways to take advantage of differing consumers’ needs and desires. “If you can come up with a bundle option and price it appropriately, many people will end up buying the bundle rather than just buying either the printed book or the PDF version of the book,” says Kannan.

This was a winning strategy for the NAP, which implemented Kannan’s recommendations. In the two years that followed, Kannan continued to gather

data on the sale of books and PDFs on the NAP Web site. The NAP was able to charge higher prices for printed books in the presence of PDF versions of the same books, resulting in higher revenues. PDF sales also increased from 7 percent to 13.6 percent, which led the NAP to increase the prices of PDFs relative to printed books. NAP plans to continue to implement policy changes using suggestions derived from the model.

The music industry, which has struggled with the impact of digital content on traditional CD sales, could benefit from re-examining its pricing models in light of this research. Consumers are already effectively unbundling content by purchasing just one or two songs from an album rather than the entire album. Kannan says, though, that it’s possible the music industry could bundle content in a way that would be attractive to users and would expand the market.

Kannan’s study was funded in part by a grant from the Mellon Foundation. “Pricing Digital Content: A Model and Application for the National Academies Press” is forthcoming from *Marketing Science*. For more information about this research, contact [pkannan@rhsmith.umd.edu](mailto:pkannan@rhsmith.umd.edu).

# The Red Queen effect

The brutal pace of competition, while it may have negative as well as positive effects for individual firms, creates stronger and fitter industries as a whole.

Here's the paradox: the more aggressively a firm competes, the greater its performance. But by competing so aggressively, it also forces its rivals to compete more aggressively, thus improving their performance. By being competitive—and thus successful—a firm also creates more competitive—and thus more successful—rivals for itself.

Ken Smith, Dean's Chair and Professor of Management and Organization, and Curt Grimm, Dean's Professor of Supply Chain and Strategy, have been exploring the effects of competitive action on firm performance for many years. In a recent study, co-authored with Pamela Derfus, a former doctoral candidate at the Smith School, and Patrick Maggitti, former doctoral student and now assistant professor at Temple University, they examine the relationships between firm actions, rival actions, rival action speed, and firm performance. They find that the brutal pace of competition, while it may have negative as well as positive effects for individual firms, creates stronger and fitter industries and firms as a whole.

Smith and Grimm refer to this as the Red Queen effect, co-opting terminology used by biologists and ecologists to describe the way populations become more fit because of competition. The term is based on a conversation between Alice and the Red Queen in Lewis Carroll's *Through the Looking Glass*. Alice realizes that she is running as fast as she can but not moving forward. The Red Queen responds: "Here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

The study examines all the major competitors in 11 different industries across a broad spectrum of the U.S. market where 70 percent or more of industry sales were generated by firms that were public, have a distinct single-business entity competing in the U.S. market, and report performance relative to the U.S. market. A searchable index of firm actions was developed from thousands of newspaper and journal articles, as well as industry trade magazines. Almost 77,000 articles were identified and then painstakingly content-analyzed to identify potential competitive actions, including pricing, capacity, geography, marketing, and product introduction. Only the earliest report of an action was entered into the study's database. The number of days between a firm's action and a rival's reaction was determined, as was firm performance as a result of each action. Finally, industry conditions were used to capture the industry context in which these actions took place.

Using this database, the authors analyzed over 4,700 firm actions and their effects on the firm's performance, an emerging approach to studying competition and a methodology Grimm and Smith pioneered.

Grimm and Smith found that industry conditions and market position play a significant role in moderating the effect of firm actions on rival actions and their joint influence on performance. In high-concentration industries and low-growth industries, managers should be more cautious of taking actions because of the mutual dependence with rivals.



Research by Curt Grimm and Ken Smith

“The issue for businesses is that it is essential to take aggressive action in the fast-paced dynamics of our economy—pricing, marketing, product innovation, expanding into new markets,” says Grimm. “That has been a fundamental takeaway from our research for a long time. But competitors aren’t going to stand by while their rivals are taking aggressive action, so you’ve got to be looking several moves ahead, like a chess game, always anticipating your rivals.”

Still, it is always better to take action than not, caution the authors. “Sometimes managers think they need to predict the outcome with complete certainty before they act, and that keeps them from acting at all. But we’ve found that it is always better to act, and act quickly, even in the face of possible reactions from your rivals,” says Smith.

The authors point to Southwest, Wal-Mart, Nike, and Target as examples of firms that have by their aggressive competitive actions edged out rivals and kept them from being able to respond effectively.

And the Red Queen effect, Smith and Grimm argue, points to the need for continual swift action on the part of firms in order to match the pace of rivals, and that this will eventually lead to better health and fitness for the competitive firms in the industry.

**Grimm and Smith found that industry conditions and market position may play a significant role in moderating the effect of firm actions on rival actions and their joint influence on performance.**

The U.S. airline industry, for example, has been intensely competitive since deregulation. A period of painful restructuring of the industry followed, with some airlines going out of business entirely. Southwest Airlines put tremendous pressure on its competitors, forcing them to respond, leading to a situation where most airlines now look more like Southwest. The airline industry is much more effective and efficient as a result.

“The Red Queen Effect: Competitive Actions and Firm Performance” was published in the February issue of the *Academy of Management Journal*. For more information, contact [ksmith@rhsmith.umd.edu](mailto:ksmith@rhsmith.umd.edu) or [cgrimm@rhsmith.umd.edu](mailto:cgrimm@rhsmith.umd.edu).

# Dingman Center

## Supports Entrepreneurship

### Research at Smith

Entrepreneurship is often thought of strictly in terms of new venture creation. But as the half-life of technologies, products and business models becomes ever shorter, established companies are finding that their existing bases of competitive advantage are decaying and becoming obsolete at a faster rate. And these established companies are facing competition on two fronts: from new ventures that emerge and seek to push them aside, and from existing companies that are transforming themselves through internal entrepreneurial efforts.

Even large companies such as Wal-Mart have little choice but to constantly retain an entrepreneurial drive. For example, the company is in the early stages of creating a new division for smaller convenience stores, which would have a business model very different from the Sam's Club and Wal-Mart discount store model. The company is also creating a bank within Wal-Mart Inc. to provide retail banking services.

Organizations at every level of development must be entrepreneurial in their efforts to stay competitive with rivals. That's why entrepreneurship research has become an increasingly important endeavor. The Smith School's Dingman Center for Entrepreneurship supports research that interprets or defines entrepreneurship broadly, focusing on both creating and growing new ventures and developing entrepreneurial ventures within larger, established companies. J. Robert Baum, associate professor of management and organization, is the center's research director.

"The Dingman Center offers a wide variety of support for entrepreneurship research and teaching," says Baum. "We have an awards program that offers

prizes to PhD students and seasoned faculty for research proposals, working papers and published research. The contest standards are aligned with standards of top journals to encourage successful publication. Nascent research is supported through monthly brown-bag lunch sessions with Dingman Entrepreneurs-in-Residence, so that practitioners can guide development of research questions and help identify data sources. The center also maintains a database of entrepreneurs who are interested in speaking to entrepreneurship classes and offers an archive of sources of research financing, including foundation and government grants."

Entrepreneurship research at Smith is conducted in a variety of departments and is often cross-disciplinary in scope. The school has one of the five largest faculties in the world pursuing research projects rooted in entrepreneurship, and they come from strategy, organizational behavior, finance, as well as other domains.

Because Smith has such a large number of researchers who are passionate about entrepreneurship, there are people studying it from very different disciplines, addressing a wide range of issues and publishing in very different top journals. Baum publishes in the *Journal of Applied Psychology*. Brent Goldfarb, assistant professor of management and organization, is an economist who publishes in the *Journal of Financial Economics*. David Kirsch, associate professor of management and organization, is a historian who publishes in a variety of journals including *Business History Review*. Ralph J. Tyser Professor of Strategy and Organization Anil Gupta, whose expertise is in strategy and globalization, publishes in the *Academy of Management Journal*.



“There are two types of approaches to research on entrepreneurship,” says Gupta. “Until the 1990s, most research on entrepreneurship was largely a-theoretical and based on inductive generalizations from field studies. Smith faculty are among the pioneers who come at entrepreneurship research somewhat differently—combining strong discipline-based theory with hard data about ground-level reality. When you combine this approach to research with our large number of researchers, we stand out as one of the best entrepreneurship research groups in the country.”

Smith faculty leverage not only the financial resources of the Dingman Center but also its rich network of relationships within the entrepreneurial and venture capital community. Doctoral student Antoaneta Petkova’s thesis on how young ventures build credibility and reputation conducted field interviews with entrepreneurs gleaned from Dingman contacts, and then conducted a large database study.

The school held its fourth Annual Smith Entrepreneurship Research Conference in April 2008. The conference featured presentations on the founder effect, entrepreneurial cognition, firms and networks, and creation of and entry into new markets. The Dingman Center provided partial funding for the conference as part of its research and outreach efforts.

The center was started in 1986 with a gift from Michael Dingman, founder of Signal Corporation (later Allied Signal). It was one of the first entrepreneurship centers in the nation. Its services became the model for regional entrepreneurship groups and later launched the National Consortium of Entrepreneurship Centers, a collection of university entrepreneurship centers which now has more than 250 members nationwide. The center now focuses on incubating student-formed companies, and has been instrumental in the launch of North Star Games, Hook & Ladder Brewing Company, SHOP DC, and Arcxis Biotechnologies—all enterprises started by Smith students.

For more information about entrepreneurial research at the Smith School, contact [jrbaum@rhsmith.umd.edu](mailto:jrbaum@rhsmith.umd.edu) or visit [www.rhsmith.umd.edu/dingman](http://www.rhsmith.umd.edu/dingman).

### The Smith School was ranked #11 in entrepreneurship

by *U.S. News and World Report* and a Top 25 school in entrepreneurship by *Fortune Small Business* magazine and *Entrepreneur* magazine.

## Faculty Awards and Honors

A paper by **Sandor Boyson**, research professor and co-director of the Supply Chain Management Center, titled "Unified Communications: Leading Advances in Global Decision Making & Economic Development," was published in the World Economic Forum's 2008 Global Information Technology report.

**Hugh Courtney**, Professor of the Practice in management and organization, was elected chairman of the board, D&E Communications. Courtney also maintains an active consulting and executive education practice focused on business strategy formulation in highly uncertain and competitive markets. Prior to joining the Smith School in 2002, he was a leader in McKinsey & Company's Global Strategy practice, where he served clients on six continents on a wide variety of strategy development and implementation issues.

"The Quest for Global Dominance," co-authored by **Anil Gupta**, Ralph J. Tyser Professor of Strategy and Organization, was re-issued by Jossey-Bass/Wiley in March 2008. Gupta served as a keynote speaker at the BusinessWeek CEO Forum in Dubai in April. He is 2008 program chair for the annual meeting of the Academy of Management's International Management Division.

**Dilip Madan**, professor of finance, received international recognition for his research by being awarded the Medal of Science from the University of Bologna's Institute of Advanced Studies.

**Debra Shapiro**, Clarice Smith Professor of Management and Organization, has had two papers accepted for presentation at the Academy of Management meeting in August and has been invited to serve as a faculty-representative on the Junior Faculty Consortium for the Academy of Management's Organizational Behavior Division.

**Ken Smith**, Dean's Chaired Professor of Business Strategy, is current past president of the Academy of Management and a

member of the editorial board of *Strategic Management Journal* and *Academy of Management Journal*.

**Gilvan Souza**, associate professor of operations management, co-authored a paper with Meltem Denizel (Sabanci University, Turkey) and Mark Ferguson (Georgia Tech), titled "Multi-Period Remanufacturing Planning with Uncertain Quality of Inputs," which won the Wickham Skinner Best Unpublished Paper Award from the Production and Operations Management Society (POMS).

## Editorial Appointments

**Gilad Chen**, associate professor of management and organization, was appointed associate editor of the *Journal of Applied Psychology*.

**Hugh Courtney**, Professor of the Practice in management and organization, was appointed associate editor of *Long Range Planning*.

**Martin Loeb**, Professor of Accounting and Information Assurance and a Deloitte & Touche Faculty Fellow, has been invited to be an associate editor for a special issue of *MIS Quarterly* on "Information Systems Security in a Digital Economy."

## Conferences

The Smith School's department of decision, operations and information technologies hosted the ninth INFORMS Telecommunications Conference, April 2-4. Approximately 125 participants from around the world joined the group. The event was chaired by **Bruce Golden**, France Merrick Chair in Management Science, and **Raghu Raghavan**, associate professor of management science.

**Anil Gupta**, Ralph J. Tyser Professor of Strategy and Organization, and **Chris Bingham**, assistant professor of management and organization, co-chaired the fourth annual Smith Entrepreneurship Research Conference, held April 11-12.

## Top Teachers Recognized with Krowe, Legg-Mason Awards

The Smith School is recognized as one of the top research institutions in the world, but it is also a place where students can learn from some of the best teachers in the business.

The Krowe Teaching Excellence Awards were established in 1986 to recognize those who have shown superior teaching skills. The Legg-Mason Award in Teaching Innovation is awarded to recognize innovation in classroom instruction that will have a lasting impact on the university. This year the Smith School's Teaching Enhancement Committee received 124 nominations for 58 Smith School faculty members for the Krowe and Legg Mason awards. Both students and alumni are eligible to enter nominations.

## CONGRATULATIONS TO ALL 2007-2008 TEACHING AWARD WINNERS

**Gary Bulmash**, Tyser Teaching Fellow, accounting and information assurance  
**Lawrence A. Gordon**, Ernst & Young Alumni Professor of Managerial Accounting  
**Rachelle Sampson**, assistant professor of logistics, business and public policy  
**Debra Shapiro**, Clarice Smith Professor of Management and Organization  
**Gerald Suarez**, Tyser Teaching Fellow, Executive Education Senior Fellow  
**Mark Wellman**, Tyser Teaching Fellow, management and organization

## PHD STUDENT/ADJUNCT

Ayson Alp (finance)  
John MacDonald (logistics, business and public policy)  
Carol Miu (marketing)  
Sandra Lee Rose (accounting and information assurance)  
David Sites (accounting and information assurance)  
Andrew Sherman (finance)

## 2007-2008 LEGG-MASON AWARD

**Philip Evers**, associate professor of logistics, business and public policy  
**Oliver Schlake**, Tyser Teaching Fellow, management and organization

## Distinguished University Professor

**Roland Rust**, David Bruce Smith Chair in Marketing, chair of the marketing department, and executive director of the Center for Excellence in Service and the Center for Complexity in Business, has been named Distinguished University Professor. It is the highest honor presented by the University of Maryland; only 50 have been conferred since the award's inception 28 years ago. The title of Distinguished University Professor recognizes the influence of Rust's body of research and his impact on the field of marketing, particularly in the area of service.

Rust is one of the top scholars in marketing, producing research that is unparalleled in its breadth and scope. He has won the MSI-Paul Root award from the *Journal of Marketing* three times, a

hat trick that puts him in the company of only Philip Kotler and Paul Green, and has collected/received numerous other best article awards. He is the holder of career awards in advertising, service marketing, marketing research, and statistics. He is the editor of his field's top-cited journal, the *Journal of Marketing*, and the journal he founded at the Smith School, the *Journal of Service Research*, was recently indexed by the Social Science Citation Index only seven years after its inception. It is now the fifth highest-cited journal in the field.

He is the author of eight books, including *Driving Customer Equity* with Valerie Zeithaml and Katherine Lemon, which won the 2002 Berry-AMA Book Prize for the best marketing book of the previous three years; his most recent book, *Customer Equity Management* with Lemon and Das Narayandas, is well on its way to becoming the seminal textbook for modern customer relationship studies. Rust is something of

a marketing trend seismograph: if he is studying it, it is sure to be the next big thing.

Rust's most recent project involved creating an adaptive personalization system for downloading digital music, with Michel Wedel, PepsiCo Professor of Consumer Science, and doctoral student Tuck Siong Chung, now an assistant professor at Nanyang University in Singapore. Rust is currently studying service productivity. His work reaches out to both the academic and managerial audiences and his models of customer equity have been implemented by a number of leading companies worldwide.

Rust founded the school's Center for Excellence in Service, which sponsors the *Journal of Service Research* and the Frontiers in Service Conference, the world's leading annual service conference, which last year drew attendees from 41 countries.

## New PhD Program Director Appointed

**Debra L. Shapiro**, Clarice Smith Professor of Management and Organization, has been appointed director of the Smith School's doctoral program, replacing Lawrence A. Gordon, Ernst & Young Alumni Professor of Managerial Accounting, effective July 1, 2008. Gordon has served as director for the past 12 years. Shapiro received her PhD in organization behavior from the J.L. Kellogg Graduate School of Management at Northwestern University in 1986, and in July of that year joined the management faculty at the Kenan-Flagler Business School (KFBS) at the University of North Carolina (UNC) at Chapel Hill. In December 2000, Shapiro was named the Willard J. Graham Distinguished Professor of Management at KFBS. She served as associate dean for PhD Programs at KFBS from 1998-2001. An author of "Managing Multinational Teams" (published in 2005 by JAI/Elsevier) and more than 60 journal publications and book chapters, Shapiro's work has appeared in many premier journals including *Administrative Science Quarterly*, *Academy of Management Journal*, *Academy*

*of Management Review*, *Organizational Behavior and Human Decision Processes*, *Journal of Applied Psychology*, and *Journal of Personality and Social Psychology*, among others. Shapiro is a past chair of the Academy of Management's (AOM's) Conflict Management Division (after serving in all executive board positions), a past member of the AOM's Board of Governors, and outgoing associate editor of *The Academy of Management Journal*.

## Featured Researchers

**Curt Grimm**, Dean's Professor of Supply Chain and Strategy, received his PhD in economics from the University of California-Berkeley, with primary focus on industrial organization. His research interests include the interface of business and public policy with strategic management, with a particular emphasis on competition, competition policy, deregulation and microeconomic reform both in the United States and overseas.

**P.K. Kannan**, Harvey Sanders Associate Professor of Marketing and director of the Smith School's Center for Excellence

in Service, received his PhD from Purdue University. His current research focuses on new product/service development, design and pricing digital products and product lines, marketing and product development on the Internet, e-service, customer relationship management (CRM), and customer loyalty.

**Ken Smith**, Dean's Chaired Professor of Business Strategy, received his PhD from the University of Washington. He is well known for his research in the areas of competition, competitive advantage and strategic decision-making.

**Russell Wermers**, associate professor of finance, received his PhD from the University of California, Los Angeles. His current research interests include the efficiency of security markets as well as the role of institutional investors in setting security prices. His past research has created new methods of measuring and attributing the performance of pension fund, hedge fund and mutual fund managers as well as devising winning strategies for investing in these funds.

# Smith School launches \$12 million doctoral program initiative

The Robert H. Smith School of Business recently announced a \$12 million PhD program initiative that will significantly enhance the school's ability to retain and attract the world's best and brightest students. The initiative—one of the most ambitious in the United States—increases annual doctoral stipends by 45 percent to \$32,500 and provides research and travel support. Philanthropist and school namesake Robert H. Smith, a 1950 graduate, contributed \$6 million toward the program, matched with funds from the University of Maryland and the business school.

This significant investment in the school's PhD program bucks the current trend in business schools, many of which are downsizing their doctoral programs due to a lack of resources. Unlike MBA programs, which generate revenue for schools, a doctoral program costs money. And because rankings are generally based on the strength of a school's MBA program rather than its PhD program, there is little reputational or financial incentive for a school to invest in its doctoral program.

So when a school is strapped for cash its doctoral program often feels the pinch. This has led to smaller doctoral programs across the board, which has in turn led to a nationwide shortage of academically qualified business school faculty. The problem is so severe that the Association to Advance Collegiate Schools of Business (AACSB) Management Education Task Force, in its 2003 study "Management Education At Risk," declared that "Unless decisive action is taken to

reverse declines in business doctoral education, academic business schools, universities, and society will be faced with an inevitable erosion in the quality of business education and research."

The Smith PhD Initiative includes a number of components designed to offer its doctoral students an unprecedented degree of compensation, resources and benefits. These include:

- Super-stipends: Incoming PhD candidates will benefit from a \$32,500 annual stipend and subsequent \$1,000 increases each succeeding year. Stipends for graduate students currently in the program will increase to average more than \$25,000 per year. Additional stipends will be available for students who advance to candidacy and those who publish papers in "A" level research journals.
- Dissertation support office: A dedicated office with a professional editor and English-language training resources will assist the production of effective dissertations, teaching and communications training.
- Research support: Doctoral students will gain from year-round support to facilitate research and fifth-year fellowships for top students in order to increase research output and improve placement prospects.
- Increased travel budget: Students will be encouraged to more actively exchange knowledge and ideas with \$1,500 per year available for travel and conferences.
- State-of-the-art facilities: PhD students will enjoy a dedicated suite

and offices in a newly completed wing of the Smith School's Van Munching Hall, opened January 2008. The PhD space was funded by William A. Longbrake, a 1976 doctoral alumnus now vice chair of Washington Mutual.

The Smith School's PhD program, rated No. 13 in the world and No. 6 in the U.S. by the *Financial Times* (2008), has grown in both numbers and reputation over the past 10 years. The doctoral program is global and attracts a very diverse group of PhD students. Right now there are 95 students who represent 17 countries; about 69 percent are international and about 46 percent are women.

In the last three years, graduates from the doctoral program have been placed in such institutions as Georgetown University, Instituto de Empresa, McGill University, Nanyang Technological University, National Taiwan University, Notre Dame, Rensselaer Polytechnic Institute, University of California/Davis, University of California Los Angeles, University of Iowa, University of Minnesota, and University of Southern California. Students regularly present papers at national as well as regional conferences and have papers accepted in major academic journals. Over the past five years, 99 percent of Smith's PhD students have been successfully placed directly after they graduate—about 80 percent as tenure-track assistant professors at an accredited university, and the rest as researchers in either private or governmental organizations.

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#### UNIVERSITY OF MARYLAND

The University of Maryland, College Park, is one of the nation's top 20 public research universities. In 2007, the University of Maryland received approximately \$407 million in sponsored research and outreach activities. The university is located on a 1,250-acre suburban campus, eight miles outside Washington, D.C., and 35 miles from Baltimore.

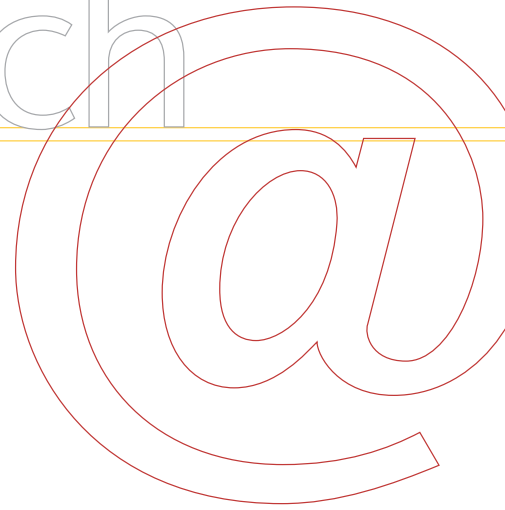
#### ROBERT H. SMITH SCHOOL OF BUSINESS

The Robert H. Smith School of Business is an internationally recognized leader in management education and research. One of 14 colleges and schools at the University of Maryland, College Park, the Smith School offers undergraduate, full-time and part-time MBA, executive MBA, MS, PhD, and executive education programs, as well as outreach services to the corporate community. The school offers its degree, custom and certification programs in learning locations on three continents—North America, Europe and Asia. More information about the Robert H. Smith School of Business can be found at [www.rhsmith.umd.edu](http://www.rhsmith.umd.edu).

# Research

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