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SIMON
BUSINESS
SCHOOL





ANDREW AINSLIE
Dean
Simon Business School
University of Rochester

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GREETINGS FROM SIMON BUSINESS SCHOOL

The world-renowned Simon faculty is known as much for its excellence in academic research as it is for its instruction and innovation. Simon professors keep the spirit of debate alive and well. Scholarly insights and breakthrough research make an impact in the classroom and raise the bar of excellence in today's business climate.

As part of the University of Rochester, one of the country's leading research institutions, Simon faculty members understand that providing an excellent education requires a rigorous approach to studying, analyzing, and interpreting the critical elements of business.

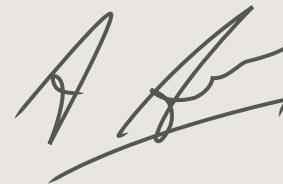
Simon research strengthens the classroom experience and enriches our collective understanding of how to do business in the modern digital age. From the effects of social media on customer service by Abraham (Avi) Seidmann and Huaxia Rui to Robert Ready's award-winning paper on international trade and currency pricing, the insights offered through our research shape the Simon experience and inspire our students to be original thinkers and creative problem-solvers.

Long known for our leadership in finance education, Simon faculty members are also passionately expanding our School's tradition of expert data analysis with avenues that explore everything from marketing to business operations and management.

That spirit of discovery and the pursuit of excellence in business education guide our research and our efforts in the classroom. Together, they create a powerful platform from which our students can confidently launch and enhance their careers as thoughtful and well-prepared business leaders in a data-driven world.

It is my pleasure to provide this glimpse into some of the exciting research being done by the faculty at Simon Business School. I think you will see that our tradition of data analysis is a powerful tool that continues to shape how we consider, analyze, and uncover the latest developments from an increasingly competitive and connected global marketplace.

Sincerely,

A handwritten signature in black ink, appearing to read 'A Ainslie', with a long horizontal stroke extending to the right.

Andrew Ainslie

Dean
Simon Business School
University of Rochester

HUAXIA RUI, Assistant Professor of Computers and Information Systems

ABRAHAM (AVI) SEIDMANN, Xerox Professor of Computers and Information Systems and Operations Management



IS GOOD CUSTOMER SERVICE A POPULARITY CONTEST?

A new study shows when it comes to using Twitter for online customer service, the more followers, the better.

FLYING GETS FRIENDLIER WHEN YOU HAVE MORE TWITTER FOLLOWERS

Recent research by Simon faculty shows that for customers with a problem to be solved, Twitter is the way to go—as long as they have a lot of followers.

In their paper, “Customer Service on Social Media: Do Popularity and Sentiment Matter?” professors Huaxia Rui and Avi Seidmann and doctoral graduate student Priyanga Gunarathne gathered over a half-million tweets sent to and by American Airlines, United Airlines, and Air Canada. Using advanced sentiment analytics tools, they classified the messages into three categories: complaints, compliments, and neutral mentions.

Airlines use Twitter for real-time customer service more than any other industry. Their executives know that each response costs them real money so they need to determine what kind of customer requests should receive a response—and how to prioritize them, Seidmann says.

The researchers analyzed the data to see whether a Twitter user’s popularity and the message’s sentiment affect response time. Results showed airlines paid significantly more attention to Twitter users with a higher number of followers. The more followers a customer had on Twitter, the more likely the airline was to respond to the comment and the more time it took to respond. “They are more prudent, more cautious when they respond to people with more followers,” Rui says.

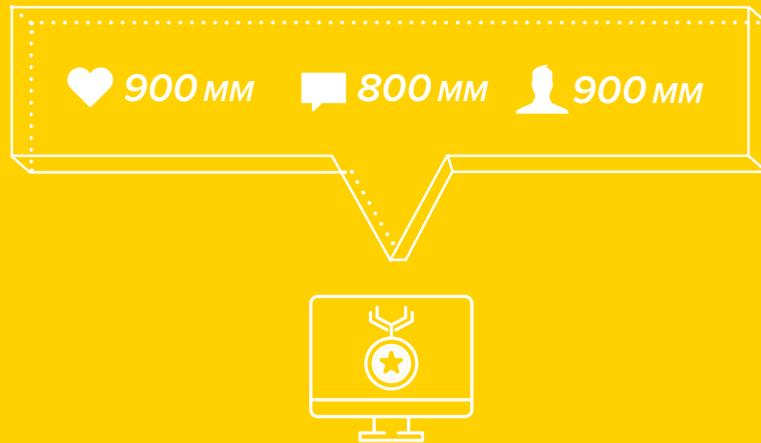
Customer service on social media is still in its infancy and companies are figuring out how to use it, the authors note.

“Traditionally, if I complain, it’s between customer care and me. But with social media, the conversation is open to everyone under the sun,” Seidmann says. “Companies are only starting to understand the power it has. They’re all experimenting.”

“Companies are spending millions on social media,” he adds. “Social media has become extremely important because customer trust and suggestions are more powerful than any other form of promotion.”

The research raises important questions: Is it alright for companies to discriminate against customers based on their social media popularity? Does such a policy pay off? How should a company determine response priorities?

To find out, Rui is gathering an enormous number of data tweets into the website twittersensor.com, which tracks all the major airlines’ customer interactions on Twitter. He continuously monitors tweets by more than 55 airlines against their competitors for their responsiveness. Greater transparency, he says, may spur companies to respond to customer concerns with more cost-effective care.



Customer Service on Social Media: Do Popularity and Sentiment Matter?

Huaxia Rui and Abraham Seidmann

Find out more about Simon Business School's research at:
simon.rochester.edu/research

ROBERT READY

Assistant Professor of Finance



ARE SOME COUNTRIES RECESSION PROOF?

New research provides a model for understanding global economic risk as it relates to a country's main industry and export.



Commodity Trade and the Carry Trade: A Tale of Two Countries

Robert Ready, Colin Ward, and Nikolai Roussanov

Available at SSRN.com
Abstract ID = 2318274

Find out more about Simon Business School's research at:
simon.rochester.edu/research

MEASURING RISK IN THE GLOBAL MARKET

Countries differ fundamentally in what they produce and, as a result, how they relate to the global economy. The result is a difference in risk associated with investing in their securities.

This award-winning work offers a general equilibrium model to understand global market strategies.

Simon professor Robert Ready and two co-authors have developed the first theoretical model of this phenomenon to understand which countries are more exposed to global economic risk. According to the authors, countries that specialize in exporting basic goods such as raw commodities tend to maintain higher interest rates, while countries

that export primarily finished goods average lower interest rates. For investors doing currency carry trades—selling low-interest-rate currencies to buy currencies with higher interest rates—such interest rate differences “translate almost entirely into average returns,” they write.

When the world economy is doing well, basic commodities become really expensive. This causes the exchange rate to appreciate in countries that are strong raw goods exporters, such as Australia and New Zealand. In very bad times, their currencies fare poorly, making them riskier, implying that investors must be compensated with high returns to hold these currencies, Ready says.

The paper’s model provides a mechanism to explain why Australia hasn’t had a recession in 25 years, and the paper points to possible strategies for savvy investors. However, because it is rich in resources, Australia is insulated from the global risk that originates in technology-heavy regions such as Japan and Switzerland. When productivity in those areas drops, Australia can put its resources to work at home instead, insulating it from shocks in the economy.

“Sorting currencies into portfolios based on net exports of finished goods or basic commodities generates a substantial spread in average excess returns,” the authors write.

Ready co-authored the paper, “Commodity Trade and the Carry Trade: A Tale of Two Countries,” with Nikolai Roussanov of the University of Pennsylvania and Colin Ward of the University of Minnesota.

THE COMMERCE
MUSE INSPIRES
EXCELLENCE IN
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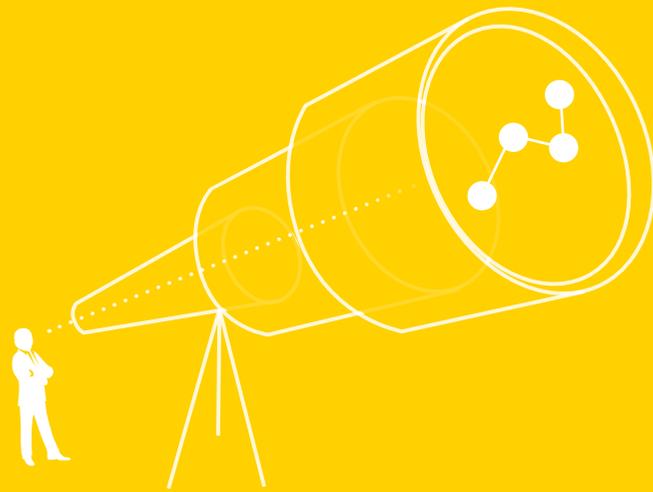
The sculpture that represents the knowledge of business was once part of the University of Rochester's original campus. She now stands near the center of Simon, in the Florescue-von Manstein Plaza.

BRYCE SCHONBERGER
Assistant Professor of Accounting



DO OPTIONS PATTERNS ACCURATELY ANTICIPATE STOCK RETURNS?

New research helps bust the myths about option
and stock market behaviors.



*Do Options Price Predictable Patterns in Future Stock Returns?
Evidence from Accounting Anomalies*
Bryce Schonberger, K. R. Subramanyam, and Hyun Hong

Available at SSRN.com
Abstract ID = 2597179

Find out more about Simon Business School's research at:
simon.rochester.edu/research

UNDERSTANDING MARKET PREDICTIONS

Do option prices anticipate predictable patterns in future stock returns? A new paper by Simon professor Bryce Schonberger and two co-authors suggests they do not.

Schonberger, K. R. Subramanyam, and Hyun Hong found that option markets mechanically incorporate the current stock price rather than correct for it—even in instances where a stock price appears to be incorrect.

A new study turns its attention to the accounting anomalies found in option markets.

Whether option markets are better than stock markets in correctly processing public information is relatively unexplored to date, and the question is continually debated. Some say option markets should be more informationally efficient because option traders tend to be informed investors. Others say poor liquidity and high transaction costs keep smart investors away.

Providing new evidence that challenges the efficient markets hypothesis, the paper contributes to the debate by showing that option prices exhibit the exact forms of mispricing exhibited by stock prices—suggesting that option markets are no more efficient than stock markets when it comes to publicly available information.

The authors analyzed option prices around well-documented, accounting-based trading anomalies, such as the post-earnings announcement drift. The study, which looked at 76,391 firm quarters in 4,119 companies from 1995 to 2011, found that the option market doesn't correct for these anomalies.

“Pieces of information that shouldn't be able to predict returns in either market turn out to have some predictive power,” Schonberger notes. “For most of the sample, transaction costs prevent even sophisticated option traders from arbitraging these things away. However, for the rest of the sample, the returns are clearly a puzzle.”

Most studies on accounting anomalies focus on stock markets, so Schonberger and his co-authors' research on option markets adds a new perspective to the literature.

The paper also investigates whether the high costs of trading options—implied volatility premiums and transaction costs—keep option traders from exploiting profit opportunities. The authors found that it wasn't possible through purchasing options, but selling them provides limited opportunities to earn significant returns over 90 days.

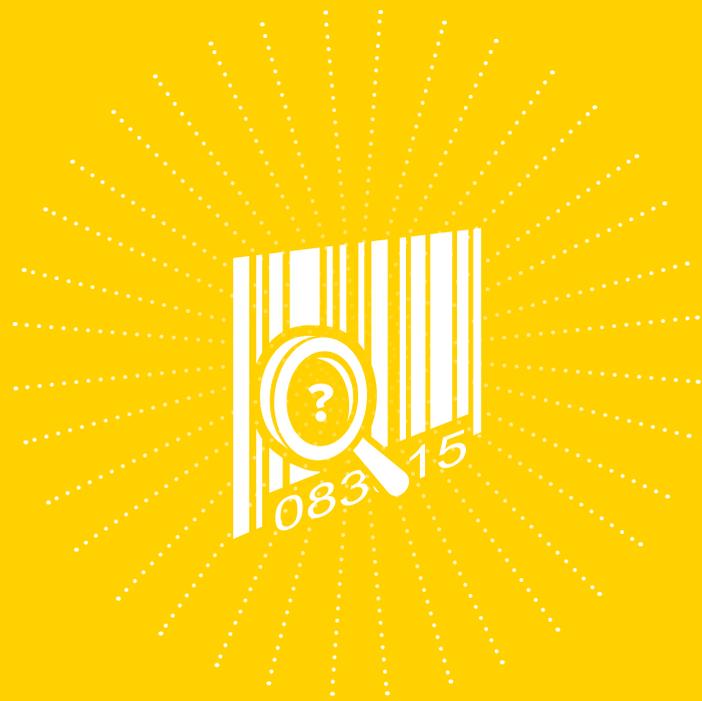
MICHAEL RAITH, Associate Professor of Economics and Management

JEANINE MIKLÓS-THAL, Associate Professor of Economics and Management,
and Marketing



HOW DO FIRMS KNOW THEIR STRENGTHS?

New research on product launches sheds light on how organizations understand their capabilities.



What Are We Really Good At? Product Strategy with Uncertain Capabilities

Jeanine Miklós-Thal, Michael Raith, and Matthew Selove

Available at SSRN.com
Abstract ID = 2664756

Find out more about Simon Business School's research at:
simon.rochester.edu/research

LEARNING LESSONS THROUGH LAUNCHES

A company's most valuable capabilities are often deeply embedded in organizational processes. That makes them hard to observe directly, which is why managers tend to infer their company's capabilities from past successes and failures, says a new paper by Simon professors Jeanine Miklos-Thal and Michael Raith. They wrote "What Are We Really Good At? Product Strategy With Uncertain Capabilities" with co-author Matthew Selove from the University of Southern California.

Companies tend to launch new products that fit well with their capabilities. But company managers and business academics rarely question how much managers know about those capabilities. "I've seen how a company's managers have certain views of what their company is good at. But what are these views actually based on?" says Raith, who has taught corporate strategy for many years. Miklos-Thal, Raith, and Selove argue that managerial beliefs are the result of rational learning from experience. They can become ingrained in a company's culture, but can also shift suddenly and trigger dramatic changes in strategy.

The authors show that a company will update its beliefs about its capabilities, which affect the expected profitability of future product introductions through each new product it releases, whether or not it succeeds. What makes this learning process important is that any product typically relies on multiple capabilities. Consequently, success or failure of a new product shapes beliefs about the capabilities relevant to that product and can lead to reevaluations of what skills contributed to the success or failure of previous products—and thereby reveal clues about skills not even used for the current product.

This learning process shapes managers' views of what their company is good at, views that sometimes stabilize over time and sometimes take surprising turns. For instance, Honda successfully launched motorcycles, cars, garden power tools, outboard motors, and jets, with each success lending further support to the view that Honda has a "core capability" in engine design. On the other hand, in the late 1980s and early 1990s, Eastman Kodak's failed effort to diversify into pharmaceuticals likely contributed to a shift in the company's self-image from being a "chemical company" to being an "imaging company," and led to an (ultimately doomed) shift in innovative focus toward digital photography.

Learning about capabilities can be a counter-intuitive process for a firm, Miklos-Thal says. In some cases a company is better served by launching a product with poor prospects just to obtain information about its skills—information that can be used in future product release decisions.

JOURNALS & PUBLICATIONS

Simon faculty members continue to make their marks as founders and editors of some of the world's most highly acclaimed business publications. Many have also published books that are now used at top business schools.

Journal of Accounting and Economics

The Journal of Accounting and Economics encourages the application of economic theory to the explanation of accounting phenomena. It provides a forum for the publication of the highest quality manuscripts, which employ economic analyses of accounting problems.

Journal of Financial Economics

The Journal of Financial Economics provides a high quality professional outlet for scholarly studies of actual cases, events, or practice. Together, they provide a rich source of data that illustrate or challenge accepted theory and lead to new insights about the world. Applications and case studies are often included in the publication. The published pieces often raise new questions, or pose old questions in an innovative ways to theories, or document interesting phenomena.

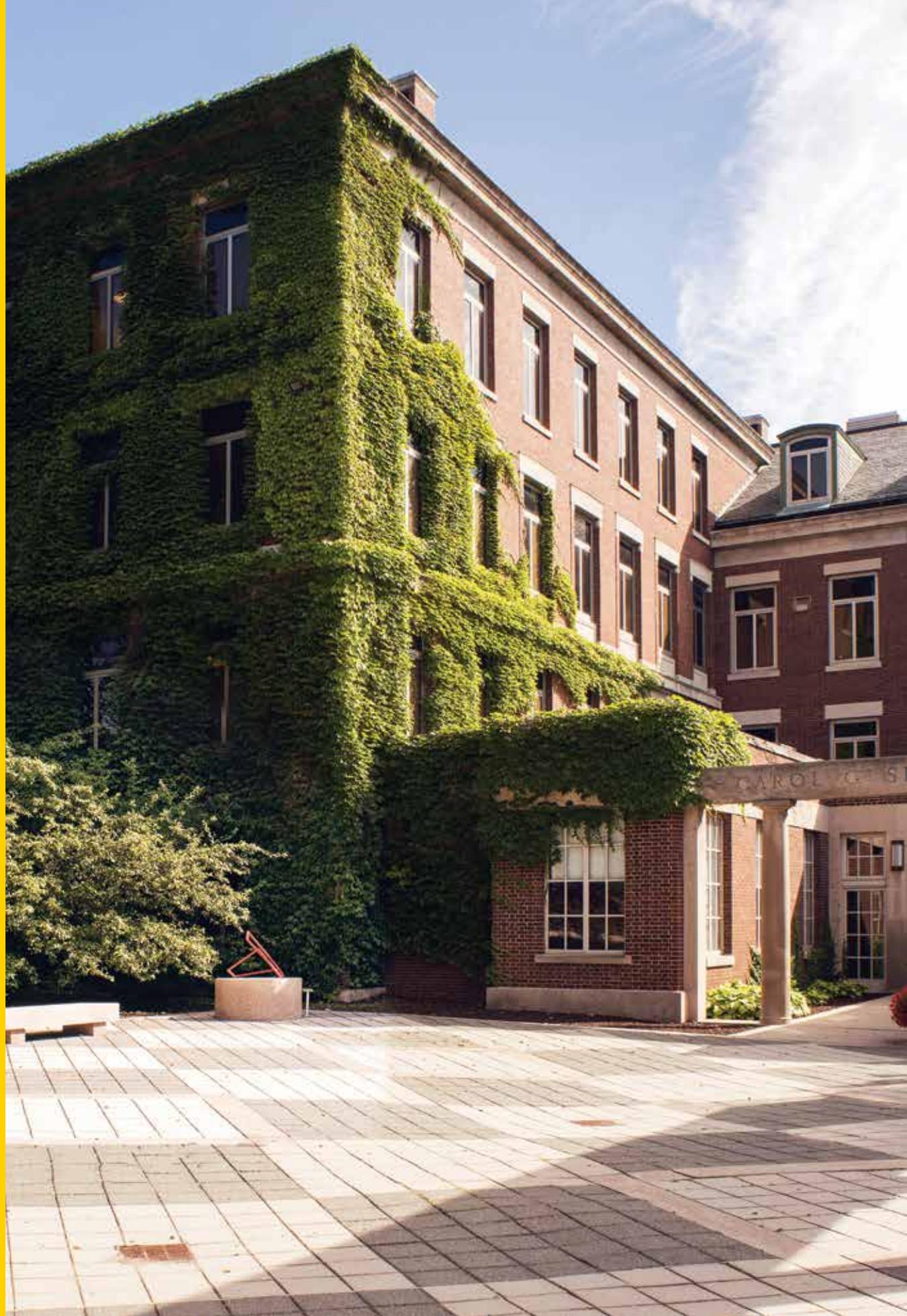
Journal of Monetary Economics

The strong interest in monetary analysis has been matched in recent years by a growing attention to the working and structure of financial institutions. The role of various institutional arrangements, the consequences of specific changes in banking structure, and the welfare aspects of structural policies have attracted interest. *The Journal of Monetary Economics* provides a specialized forum for the publication of this research.

University of Rochester
Simon Business School
2-341 Carol Simon Hall
Rochester, NY 14627

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Research highlights written by Sally Parker.

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