

In the Game of Business, Playing Fair Can Actually Lead to Greater Profits

Tune into “The Apprentice,” and you get an all-too-common view of business. Every week, all of the wannabe moguls try to impress Donald Trump by preening, cajoling and conniving. In this world, toughness is the measure of every CEO, and the boss glories in firing people and squeezing every penny out of suppliers.

Yet according to John Zhang and Jagmohan Raju, both Wharton marketing professors, and Tony Haitao Cui, a University of Minnesota marketing and logistics professor, many people aren't purely mercenary in their business dealings. They care about fairness -- and they should, the researchers say, because doing so can maximize their profits.

A manufacturer and a retailer can both end up making more money if they are fair minded, setting prices with an eye to achieving an equitable outcome in their joint marketing channel as opposed to merely maximizing their individual profits, Zhang, Raju and Cui argue in a paper recently published in *Management Science* titled, “Fairness and Channel Coordination.”

When people are fair minded, they don't need to waste time on elaborate negotiations or enter into complicated contracts to coordinate their marketing channel and maximize profitability, the authors contend in their paper. “A constant wholesale price will do. When a fair channel is coordinated through a constant wholesale price, the retailer perceives no inequity. Therefore, a constant wholesale price as a channel-coordination mechanism can help to foster an equitable channel relationship.”

Call it a new glove for the Invisible Hand: The manufacturer sets his price, and the retailer's sense of fairness takes care of the rest. “We show that you don't need elaborate coordination contracts because concern about fairness creates coordination, which perhaps explains the prevalence of using simple wholesale prices as channel contracts,” Zhang says.

Here's how it works. When the retailer sees that he is being treated fairly by the manufacturer, he will reciprocate by picking a retail price that rewards the manufacturer. Because each gets an equitable share of the channel's profit, they won't squabble. “If you are fighting against each other, ultimately the whole channel will suffer,” Zhang notes.

Conventional wisdom says that the manufacturer needs to enter into an elaborate contract with the retailer to align their interests. It may take the form of revenue sharing, quantity discounts or two-part tariffs. “In practice, you rarely see that,” Zhang points out. “You mostly see a simple wholesale price contract. Given that, what's happening? What we show is that, as a retailer, you care about fairness: You want to be treated nicely, and you'll treat me nicely if I treat you that way.”

For this kind of coordination to work, the retailer has to be able to ascertain the manufacturer's costs. Otherwise, he can't gauge fairness of the wholesale price. “With transparency, it works better,” Zhang says. “You would know what's fair and what's not.” Without it, you have to rely simply on reputation and trust, which can take a long time to develop.”

Global Leadership Professional (GLP) Program Offered at NBTA Convention

The NBTA Foundation will offer Business Innovation & Blue Ocean Strategy at NBTA's 40th International Convention & Exposition in Los Angeles, July 27-30, 2008.

Blue Ocean Strategy is the search for markets, or “blue oceans”, undiscovered by competition. The objective is to reinvent your value offering by making it unique, and, in the extreme, making it so uniquely distinctive that it ultimately makes the competition irrelevant. Ironically, the best way to reach this blue ocean and beat the competition may be to stop trying to do just that, and instead focus on rethinking and re-imagining your offering away from the traditional competitive game. Doing so requires looking at your value offering from a customer's point of view. New market space can be created by examining existing customers as well as non-customers, and rethinking your offering to match what they really want. In this workshop, the major tools of Blue Ocean Strategy and other Innovation concepts will be introduced and applied in small team settings to various parts of the business travel value proposition.

In addition to counting towards the Wharton Certificate of Professional Development, this session can also be used to satisfy the annual post-graduate CTE elective requirements.

The GLP aims to provide individuals with the skills to create value for corporations, develop analytical skills to study industry trends and identify new solutions for emerging issues through the help of Wharton professors. In order to receive your certificate, individuals must complete three 2-day sessions and one 5-day session within a 24-month period.

Space is limited and offered on a first come, first served basis – so register today! For more information or to apply for this session, visit www.nbtafoundation.org and click on Education. Please contact Kerry Gaylor at 703-236-1169 or email KGaylor@nbtafoundation.org for additional information.

GLOBAL LEADERSHIP PROFESSIONAL PROGRAM

WIN A LUXURY VACATION FOR ONLY \$10

The NBTA Foundation will hold its 9th Annual Drawing during the NBTA International Convention & Exposition, July 27-30 in Los Angeles. During each of the General Sessions, the Foundation will draw the winners of 14 luxury vacation prizes, which include: round trip airfare for two, week long stay in a one-bedroom suite, \$100 gift card, free airport parking and more.

Fantastic Prizes include trips to New York, Chicago, Cancun, St. Thomas, Madrid, Frankfurt, London, Shanghai, Paris, Los Cabos, Hawaii, a Caribbean Cruise, US Dream Vacation, European Dream Vacation, and more.

Raffle tickets can be purchased in advance on the NBTA Foundation Web site at www.nbtafoundation.org or on-site at NBTA's International Convention & Exposition. You do NOT need to be present to win. Proceeds from the drawing will be used to help the Foundation continue to provide research and education to the travel industry.

The NBTA Foundation would like to thank the following companies that have donated to the drawing:

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Transparency isn't a difficult condition to satisfy. Retailers typically have access to information on their suppliers' costs. This is true, for instance, "when the manufacturer supplies a standardized product or a commodity," the three scholars write. "In that case, competitive offers from manufacturers will reveal [significant cost information] to a retailer. This is also the case when the retailer engages in the private-label business and therefore knows quite a bit about manufacturers' cost structure."

Fairness over Profit Maximization

Zhang, Raju and Cui's model is rooted in the emerging field of behavioral economics. Behaviorists, as practitioners are known, have shown with experiments that people sometimes value fairness over profit maximization. In one such experiment, called the ultimatum game, one player receives a sum of money and gets to propose how to split it with a second player. The second player must accept the proposed division for either of them to receive any of the cash; if she rejects it, both end up with nothing. Classical economic theory suggests that the proposer should keep just about everything for himself — say, 99% — and offer just a crumb to the person across the table. That way, he has maximized his benefit, and the other player will accept because she's a bit better off than she was. In reality, responders typically reject splits in which they receive less than 20%. In some cultures, people will even reject splits of less than 50/50.

"The ultimatum game tells you that people aren't hard-nosed economists," Zhang says. "They are fair minded. And this kind of experimental outcome has strategic implications. We are saying that

you don't need a hard-nosed attitude to make a profit in the real world. In some areas, fairness will address the channel relationship in such a way that everyone can be better off."

A model is necessarily a perfect microcosm. The three scholars' theory assumes that the retailer cares about fairness and shows how, if he does, that this can lead to better outcomes for both. But Zhang believes that it's a reasonable approximation of how people really conduct themselves. "This is behavior that we're indoctrinated in," he says. "It's hardwired in our head. If we behave unfairly, we feel bad about ourselves." It's why people don't typically propose 99/1 splits in the ultimatum game and why they reject divisions perceived as unfair.

Large companies, because of their impersonality, might create situations where people care less about treating others fairly. That can be especially true if their employees are compensated for achieving short-term goals. "All else being equal, if you are working for a bigger company and you will get promoted if you make a short-term profit, you don't worry so much about fairness," Zhang says. "However, disregarding fairness can be detrimental to the company in the long run, as fairness is the lubricant for the sales machinery."

Excerpted with permission from Knowledge@Wharton, a bi-weekly online resource that offers the latest business insights, information and research from a variety of sources. For the full text of this article and others, go to <http://knowledge@wharton.upenn.edu>. Professor Jagmohan Raju teaches in the NBTA Foundation Global Leadership Professional (GLP) Program.

UPCOMING EVENTS

May 2008

30: Scholarship Application Deadline

July 2008

26-27: Global Leadership Professional Program

Topic: Business Innovation and Blue Ocean Strategy

NBTA Annual Convention, Los Angeles

27: 2nd Annual NBTA Foundation Golf Classic & Spa Day

Industry Hills Golf Course, Los Angeles, California

27-30: NBTA International Convention and Exposition

Los Angeles, California

September 2008

14-16: Global Leadership Professional Program

Topic: Creating Value through Financial Management, Minneapolis

18: NBTA Foundation Board of Trustees Meeting

Minneapolis

November 2008

2-4: Global Leadership Professional Program

Topic: Effective Leadership through Stronger Relationships, Phoenix

NBTA Foundation Hosts Successful Gala Dinner, Launches New Partnership Initiative



Nearly 400 business travel industry professionals attended the Foundation's 11th Annual Gala Dinner which took place on Monday, March 10 in the historic Hudson Theatre at the Millennium Broadway Hotel.

The black tie event, held in conjunction with the NBTA Business Travel Financial Forum, raised more than \$180,000 to help the Foundation continue to provide top-notch educational programs and cutting-edge research to business travel professionals.

During the dinner, the Foundation announced its new Foundation Partnership Initiative, through which the Foundation will partner with corporations and other stakeholders interested in advancing the corporate travel industry. This new collaboration effort, to run from 2009 through 2013, will allow the Foundation to continue to deliver and enhance educational and research offerings expand these offerings



globally, and build a Foundation that is self-sustaining.

Several stakeholders have already stepped forward committing \$2.45 million to the Foundation Partnership Initiative including: NBTA, IHG, Carlson Wagonlit Travel, Concur, Wyndham Hotel Group, Continental Airlines, and Northwest Airlines.

The Foundation also recognized its six out-going Board members who

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Scholarship Deadline, May 30! All NBTA Members Eligible

Time is running out! The deadline to submit completed scholarship applications is Friday, May 30th.

This year, the Foundation will award over \$90,000 in scholarships at NBTA's 40th International Convention & Exposition held in Los Angeles July 27-30. NBTA members, both allies and directs, can apply for grants in the following education programs: Certified Corporate Travel Executive program (CCTE), the Global Leadership Professional (GLP) and the Independent Studies Program (ISP).

To take advantage of the NBTA Foundation scholarship program and to download an application form, please visit www.nbtafoundation.org and click on Scholarships. For more information contact Kerry Gaylor at KGaylor@nbtafoundation.org.

NBTA Gala... *Continued from page 3*



recently completed their terms and honored Ellen Keszler, past chair, for her leadership and commitment to the Board.

Guests enjoyed the opportunity to network with industry peers while enjoying an evening of fun, delicious food and entertainment by the Loston Harris Trio.

The NBTA Foundation would like to thank the following companies that purchased tables and made this event a success.

Chairman's Tables

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Millennium Hotels & Resorts
Loews Hotels
Royal Caribbean International
Sabre Holdings
Starwood Hotels & Resorts (2 tables)
United Airlines
Visa USA
Wyndham Hotel Group

A special thanks to Millennium Hotels & Resorts and The Millennium Broadway for hosting this wonderful event. To find out more about other fundraising activities provided by the Foundation, please visit our Web site at www.nbtafoundation.org/funding.

NBTA *foundation*

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