Something for the weekend

By Linda Anderson

When an individual has a poor credit rating, it is likely it will be extremely difficult for the person concerned to get a loan. But new research has found that in some instances being seen as a bad credit risk can in fact work to the borrower's benefit.

Academics from MIT Sloan School of Management and Cornell University, in the US looked at data on the behaviour of borrowers and lenders on the microlending website Prosper. They discovered that individuals with poor credit ratings appeared to attract the most favourable response from lenders.

“They [borrowers] infer that there must be something really good about a borrower who is getting a loan in spite of having a poor credit rating,” says Juanjuan Zhang an associate professor of marketing at the Sloan school.

On the microlending website would-be borrowers put forward their reasons for needing a loan in a public posting. Lenders can then see who is willing to lend money and whether other lenders consider the borrower to be trustworthy.

Prof Zhang, with Peng Lui, an assistant professor at the Center for Real Estate and Finance, School of Hotel Administration, Cornell University, also looked at the performance of the loans to see if they were able to
gain any insight into which ones were more likely to default. They discovered that those loans to borrowers, who despite having poor credit ratings, had nevertheless won over lenders, tended to out-perform equally popular loans with higher credit ratings.

“The reassuring news from this study is that people on microlending websites tend to be savvy, entrepreneurial investors who learn from their peer lenders,” says Prof Zhang.

- It is a conundrum familiar to many retailers; should you reward your own customers for their loyalty, thereby encouraging them to continue to shop with you, or should you try to woo new customers by offering a cut-price deal?

Known as behaviour-based pricing, offering different prices to different customers based on their past purchasing behaviour is a staple in retailing.

Traditionally and instinctively retailers believe that if they wish to maximise loyalty and make money from their customers then they need to reward these customers, making them more loyal. But academic research has been sceptical about this approach, stating that since these customers have already demonstrated their loyalty, there is no need to reward them because they have shown their intention to buy the goods. Instead it is suggested that retailers should try to lure a competitor’s customers by offering lower prices.

In an attempt to solve this puzzle, Jiwoong Shin, an associate professor of marketing and K Sudhir, a professor of marketing, both at Yale School of Management, Yale University have asked when is it profitable to reward one’s own customers?

In their research Prof Shin and Prof Sudhir have found that when a small group of customers provide a large percentage of profits and when, at the same time, it is also easy for these customers to switch their custom, then retailers should follow their instincts and reward their customers.

Recognising these factors say the authors gives a crucial insight into when BBP should be used and will allow retailers to “arrive at the right balance between customer acquisition and retention”.

The paper “A customer management dilemma: when is it profitable to reward one’s own customers?” is published in Marketing Science.

If you are a top female executive, are white and perhaps on occasion assert your authority in the workplace, research shows that the chances are that you will be viewed negatively. However, do the same perceptions exist if you are a black female executive?

Robert Livingston, an assistant professor of management at the Kellogg School of Management at Northwestern University and Ashleigh Shelby Rosette, an assistant professor of management at Fuqua School of Business at Duke University say that previous research has
shown that white women and black men should be “docile, warm and communal”

To discover whether black female executives are subject to the same stereotypes, they surveyed 84 non-black participants, giving each one a photograph and a fictitious description of a senior executive at a leading company. The participants were then asked questions based on meetings between the executive and a junior employee. In some of these scenarios the executive showed anger and assertiveness, whilst in others the executive appeared more encouraging and compassionate.

The results revealed that those black male and white female executives who demonstrated dominant behaviour were seen in a negative light. But, white male and black female executives did not receive the same negative evaluation if they displayed anger or asserted their authority.

In the case of black women Prof Livingston suggests the reason for this might be because black women “do not represent the same level of threat as black men, nor do they activate the same level of ‘surprise’ as white women who behave assertively”.

Prof Rossette says that their findings challenge previous theories that assumed that because of both her race and her gender a black female leader would be subject to double the negative perceptions.

“The intersection of race and gender may place dominant black women in a unique position that buffers them from some of the racial prejudices aimed at black male leaders and the gender biases directed toward white female leaders, “ she says.

The research, “Can an agentic black woman get ahead? The impact of race and interpersonal dominance on perceptions of female leaders” will be published online in the journal of Psychological Science.

This article has been amended since original publication.

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