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Management Insights

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The World Is Not Small for Everyone: Inequity in Searching for Knowledge in Organizations (p. 1415) [Jasjit Singh, Morten T. Hansen, Joel M. Podolny](#)

The “small-world” argument emphasizes that people are, on average, only a few connections away from the information they seek. The authors explore why some employees may be at a disadvantage in searching for information in organizations. It is understood that, if an employee is positioned far from the network center, then the employee may have longer search paths in locating knowledge in an organization; thus, they are less likely to find the information they seek quickly and efficiently. These researchers conducted a network field experiment in a large multinational professional services firm and found that searchers are also likely to seek information from people similar to themselves, which exacerbates the problem. Because their connections are similar to them, they are less likely to conduct a quick and successful search. The insight for management: Encourage network connections among heterogeneous employees to improve the efficiency of information search.

The Impact of Information Technology on Academic Scientists’ Productivity and Collaboration Patterns (p. 1439) [Waverly W. Ding, Sharon G. Levin, Paula E. Stephan, Anne E. Winkler](#)

Does information technology (IT) increase research productivity and collaboration? The authors investigate the impact of information technology on productivity and collaboration patterns in academe. They analyzed data from 3,114 active research scientists from 314 U.S. institutions over a 25-year period. They found that early adoption of Internet technology (BITNET and a domain name) on a scientist’s campus had a positive effect on his or her research productivity and collaborative network. The technology effect is greater for researchers and those at nonelite institutions, suggesting that IT is an equalizing force, providing a greater boost to productivity and more collaboration opportunities for scientists

who are more marginally positioned in academe. The insight for management: Academic administrators can boost researchers’ output with appropriate IT investment such as online database subscriptions and collaboration tools.

Deal or No Deal: Hormones and the Mergers and Acquisitions Game (p. 1462) [Maurice Levi, Kai Li, Feng Zhang](#)

Would a woman CEO be more likely to lead two companies through a cooperative merger or acquisition? The authors argue that a combative nature among CEOs is a result of testosterone levels that are higher in young males. Young male CEOs appear to be combative: They are 4% more likely to be acquisitive, and, having initiated an acquisition, they are more than 20% more likely to withdraw an offer. Furthermore, a young target male CEO is 2% more likely to force a bidder to resort to a tender offer. Specifically, high-testosterone responders tend to reject low offers even though this is against their interest. The act of attempting or resisting an acquisition can be viewed as striving to achieve dominance. The insight for management: There seems to be a significant hormone effect in mergers and acquisitions.

Strategies to Fight Ad-Sponsored Rivals (p. 1484) [Ramon Casadesus-Masanell, Feng Zhu](#)

How should Apple iTunes respond to Pandora, an ad-sponsored, free music service? Similarly, what should AOL have done with its subscription rates when Net-Zero, a free, ad-sponsored service, came about? The authors analyze the optimal strategy of a high-quality incumbent that faces a low-quality ad-sponsored competitor. Apple might first compete through adjustments of tactical variables such as price or the number of ads a product carries. But the authors show that the optimal response to an ad-sponsored rival often entails more strategic business model reconfigurations. These researchers suggest that the incumbent might consider using an ad-sponsored model like

the competitor; a mixed model in which the incumbent offers a product that is both subscription based and ad sponsored; or a dual model in which the incumbent offers two products, one based on the ad-sponsored model and the other based on the mixed business model. They also find that, when there is an ad-sponsored entrant, the incumbent is more likely to prefer to compete through the subscription-based model or the ad-sponsored model, rather than the mixed or the dual model, because of cannibalization and endogenous vertical differentiation concerns. The insight for management: An optimal response to a new competitor might require strategic business model changes.

International Diversification with Factor Funds
(p. 1500)

Cheol S. Eun, Sandy Lai, Frans A. de Rooy, Zhe Zhang

Can improved investment strategies break through previously identified risk–reward trade-offs? The authors propose a new investment strategy employing “factor funds” to systematically enhance the mean-variance efficiency of international diversification. They use data from 10 developed countries during the period 1981–2008 and show that their augmented optimal portfolio involving local factor funds substantially outperforms the benchmark optimal portfolio comprising only country market indices as measured by their portfolio risk/return ratios. Their results are robust for a number of time periods and investment costs. The insight for management: Adding factor funds into a portfolio can improve the risk/return trade-offs of indexed funds.

Do Inventory and Gross Margin Data Improve Sales Forecasts for U.S. Public Retailers? (p. 1519)

Saravanan Kesavan, Vishal Gaur, Ananth Raman

The authors suggest that firm-level sales forecasts for retailers can be improved if cost of goods sold, inventory, and gross margin (defined as the ratio of sales to cost of goods sold) are incorporated as three endogenous variables. They construct a simultaneous equations model, estimated by using public financial and nonfinancial data, to provide joint forecasts of annual cost of goods sold, inventory, and gross margin for retailers using historical data. The authors show that sales forecasts from this model are more accurate than consensus forecasts from equity analysts. The insight for management: Equity analysts seem not to fully utilize historical inventory and gross margin data that contain information useful to forecast sales.

Diversification, Diseconomies of Scope, and Vertical Contracting: Evidence from the Taxicab Industry (p. 1534)

Evan Rawley, Timothy S. Simcoe

The authors study how firms reorganize after diversification, proposing that firms use outsourcing, or vertical disintegration, to manage diseconomies of scope. They explore the origins of scope diseconomies, showing how different underlying mechanisms generate contrasting predictions about the link between within-firm task heterogeneity and the incentive to outsource after diversification. Using microdata from the Economic Census on taxicab and limousine fleets, they find that taxicab firms outsource, by shifting the composition of their fleets toward owner-operator drivers, when they diversify into the limousine business. The magnitude of the shift toward driver ownership is larger in less urban markets, where the tasks performed by taxicab and limousine drivers are more similar. The insights for management: Firms use outsourcing to manage diseconomies of scope, and inter-agent conflicts can be an important source of scope diseconomies.

Contracting for Infrequent Restoration and Recovery of Mission-Critical Systems (p. 1551)

Sang-Hyun Kim, Morris A. Cohen, Serguei Netessine, Senthil Veeraraghavan

How should a company structure supplier equipment service contracts when the equipment is too important to fail? On one hand, the supplier has to respond to these infrequent outages because firms that rely on functioning mission-critical equipment for their businesses cannot afford significant operational downtime due to system disruptions. On the other hand, because the equipment is so critical, disruptions occur infrequently, making it very expensive for a supplier to commit the necessary resources for recovery because they will be idle most of the time. A widely adopted incentive mechanism is performance-based contracting (PBC), in which suppliers receive compensation based on realized system uptime. The authors show that designing a successful PBC creates nontrivial challenges that are unique to this environment. Namely, because of the infrequent and random nature of disruptions, a seemingly innocuous choice of performance measures used in contracts may create unexpected incentives, resulting in counterintuitive optimal behavior. They compare the efficiencies of two widely used contracts, one based on average downtime and the other based on cumulative downtime, and they identify the supplier’s ability to influence the frequency of disruptions as an important

factor in determining which contract performs better. The insight for management: A company must devise a proper incentive mechanism for the rare outage of mission-critical equipment so that the suppliers provide prompt restoration and recovery services to the customer.

Timing of Effort and Reward: Three-Sided Moral Hazard in a Continuous-Time Model (p. 1568)

Jun Yang

Could a different contract structure have prevented the recent mortgage banking debacle? In the mortgage banking industry, the loan originator screens borrowers, and the rating agency evaluates the creditworthiness of the mortgage-backed securities (MBS) at the outset, whereas the servicer collects mortgage payments and detects or prevents potential defaults over time. The author studies the three-sided moral hazard problem with one agent exerting up-front effort and two agents exerting ongoing effort. The author finds that, in the optimal contract, the timing of payments reflects the timing of effort: Payments for up-front effort should precede payments for ongoing effort. The insight for management: Careful contract structuring can help create the required incentives for success.

Does a Manufacturer Benefit from Selling to a Better-Forecasting Retailer? (p. 1584)

Terry A. Taylor, Wenqiang Xiao

Better forecasts would seem to create better outcomes. This may not be so for all supply chain members, according to the authors, who consider a manufacturer selling to a retailer with a perishable product that possesses superior demand-forecast information. They find that the manufacturer benefits from selling to a better-forecasting retailer if and only if the retailer is already a good forecaster. Surprisingly, if the retailer has poor forecasting capabilities, then the manufacturer is hurt as the retailer's forecasting capability improves. More generally, the manufacturer tends to be hurt by improved retailer forecasting capabilities if the product economics are lucrative but is better off from a better forecast if the product economics are not. What drives this result? The retailer can use this capability strategically in negotiations and extract a greater percentage of the supply chain profits. The optimal procurement contract is a quantity discount contract. The insight for management: Improved retail forecasts can be a boon to the manufacturer but are not necessarily so.

Commercializing Science: Is There a University "Brain Drain" from Academic Entrepreneurship? (p. 1599)

Andrew A. Toole, Dirk Czarnitzki

When academic researchers participate in commercialization using for-profit firms, there is a potentially costly trade-off—their time and effort are diverted away from academic knowledge production. This is a form of brain drain on the not-for-profit research sector that may reduce public knowledge accumulation and adversely impact long-run economic growth. The authors examine the economic significance of the brain drain phenomenon using scientist-level panel data. They identify scientists who start or join for-profit firms using information from the Small Business Innovation Research program and analyze the research performance of these scientists relative to a control group of randomly selected research peers. With data on the number of university spinoffs in the United States from 1994 to 2004, the authors find that the academic brain drain has a nontrivial impact on knowledge production in the not-for-profit research sector. The insight for management: Engaging in entrepreneurial activity may result in profitable activities for researchers, but not without an opportunity cost to the public knowledge base.

Using Scheduled Ordering to Improve the Performance of Distribution Supply Chains (p. 1615)

Lucy Gongtao Chen, Srinagesh Gavirneni

Can more rigidly constrained ordering policies reduce supply chain costs? The authors propose two scheduled ordering policies: the scheduled balanced ordering policy (SBOP) and the scheduled synchronized ordering policy (SSOP). Under both the SBOP and SSOP, retailers are allowed to order freely in only one period of an ordering cycle and receive fixed shipments in other periods. Retailers take turns ordering freely under the SBOP, whereas under the SSOP all retailers order freely in the same period. The authors compare their ordering policy with a supplier and retailers who all try to minimize their own inventory-related costs. With the average supply chain cost per period as the performance measure, they find that scheduled ordering policies are most effective when (i) the supplier's holding and expediting costs are high and the retailer's backorder cost is small, (ii) the end-customer demand variance and correlation are high, and (iii) the supplier's capacity is high. The insight for management: Creating more stable ordering patterns may improve supply chain costs under some conditions.