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Management Insights

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Anticipatory Sorting and Gender Segregation in Temporary Employment (p. 989)

[Isabel Fernandez-Mateo](#), [Zella King](#)

Gender job-category segregation and differentials in wages are often rationalized with firm-specific human capital and expectations of future commitment. Such theories would not apply for a temporary worker agency. The authors examine the roots of gender segregation in the screening process by using a longitudinal data set of candidates considered for temporary projects at a staffing firm and following their progress through the hiring pipeline. They find that the staffing firm is more likely to shortlist women for low-paying projects and is less likely to do so for high-paying ones. These effects are due to women being considered for different projects from men and are associated at least partially with the level of competition within vacancies. The insight for management: Evidence of gender segregation of job categories and resulting wage differentials has been found in the context of temporary project employment.

Managing Product Variety and Collocation in a Competitive Environment: An Empirical Investigation of Consumer Electronics Retailing (p. 1009)

[Charlotte R. Ren](#), [Ye Hu](#), [Yu \(Jeffrey\) Hu](#), [Jerry Hausman](#)

Best Buy offers a “Price Match Guarantee” to its customers, but this guarantee is put to test only if there is a nearby competitor such as Circuit City with the same product. The authors ask the question: Will a store change its level of product variety if there is a key competitor in its market area? Are variety and product overlap further affected if the competing store is collocated? The authors study a unique data set that contains all Best Buy and Circuit City stores in the United States and find that a store’s product variety as measured by the number of stock-keeping units increases if a rival store exists in its market but decreases when the rival store is collocated within one mile of the focal store. Moreover, collocated rival stores tend to differentiate themselves by overlapping less in product range than do noncollocated rivals.

This smaller and more differentiated product variety may be because of coordinated interactions between collocated stores. The insight for management: There is evidence of both coordination and competition in retailers’ use of product variety for collocated stores.

Optimal Housing, Consumption, and Investment Decisions over the Life Cycle (p. 1025)

[Holger Kraft](#), [Claus Munk](#)

What is the optimal mix of rental and real estate ownership, consumption, and investment over a lifetime? The authors provide solutions to life-cycle utility maximization problems involving stock and bond investment, perishable consumption, and the rental and ownership of residential real estate. The authors note that the prices of houses, stocks and bonds, and labor income are correlated. Because of the positive correlation between house prices and labor income, young individuals want little exposure to house price risk and tend to rent their homes. Later in life the desired housing investment increases and will eventually reach and exceed the desired consumption, suggesting that the individuals should buy their homes—and either additional housing units (for renting out) or house price-linked financial assets. In the final years, preferences shift back to home rental. The insight for management: Optimal housing, consumption, and investment behavior can be explained in a life-cycle model.

Why Genius Leads to Adversity: Experimental Evidence on the Reputational Effects of Task Difficulty Choices (p. 1042)

[Elena Katok](#), [Enno Siemsen](#)

“Keep it simple, stupid” is an expression that promotes the simplest approach as the most likely to succeed. The authors conduct an experiment to test whether research and development (R&D) professionals follow this design principle. The authors find that the need of R&D professionals to prove their talent within their organization or their broader community drives them to implement design solutions that are unnecessarily difficult, resulting in a higher likelihood of project failure. The authors also show that, for the same reason, the most capable designers tend

toward the most complex problems. The insight for management: Your best and brightest might be trying to prove their talents as much as complete their projects successfully; be wary of unnecessarily complicated design. Push for Einstein's ideal: "Everything should be as simple as possible, but no simpler."

Optimal Preorder Strategy with Endogenous Information Control (p. 1055)

Leon Yang Chu, Hao Zhang

The iPad tablet, the Droid smartphone, the video game *Halo 3*, and the seventh Harry Potter novel, *Harry Potter and the Deathly Hallows*, all were heavily preordered. What might cause a consumer to order a product before its release, and how can sellers best integrate preorder and retail prices? The authors find that the optimal pricing strategy may be highly dependent on the amount of information available at preorder and the relative spreads of profit potential and customer valuation of the product. When the spread in profit potential is large, less information and a large discount at the preorder stage enable the seller to sell more at preorder, when consumers are less certain about their valuations. When consumer valuation spread is large, the seller should target high-end valuation customers through a limited information release and small discounts. Interestingly, the seller should never release all information. The insight for management: Information release and preorder pricing strategies depend on the relative spread of consumer perceptions and product profit level potential.

Dynamic Price Competition with Fixed Capacities (p. 1078)

Victor Martínez-de-Albéniz, Kalyan Talluri

Revenue management in airlines, car rental companies, and hospitals is a well-known and widely utilized approach to pricing a fixed, ephemeral capacity. Most research has dealt with optimal pricing with respect to uncertain demand conditions. Here the authors study the effect of such pricing practices on the competitive structure of the market. Whether there are fewer competitors, such as in airlines, or more, such as in hotels, affects typical revenue management strategies by introducing interdependent pricing strategies. The insight for management: In markets with fewer competitors, optimal revenue management strategies might depend not only on one's own capacity and expected demands, but also on competitors' capacities, demand, and price response to same.

Loss Aversion with a State-Dependent Reference Point (p. 1094)

Enrico G. De Giorgi, Thierry Post

Decision makers often evaluate alternative outcomes' gain or loss relative to some reference point. The

authors investigate such reference-dependent choice when the outcome of the reference point is uncertain. For example, the investment performance of money managers is often measured relative to a risky benchmark portfolio such as the S&P 500 index rather than a fixed target return. Does the same loss aversion apply? The authors find that the optimal reference-dependent solution equals the optimal consumption solution (no loss aversion) if the reference point is selected fully endogenously. Given that loss aversion is widespread, the authors conclude that the reference point generally includes an important exogenously fixed component. Using historical U.S. investment benchmark data, they show that this model is consistent with diversification across bonds and stocks for a wide range of evaluation horizons despite the historically high-risk premium of stocks compared to bonds. The insight for management: Loss aversion behavior is relevant even in cases where the reference point is of uncertain value.

Trust in Forecast Information Sharing (p. 1111)

Özalp Özer, Yanchong Zheng, Kay-Yut Chen

Information sharing is widely believed to improve supply chain efficiency, but this is true only if the information itself is to be believed. Customer forecasts provide great information for suppliers if they are accurate, but, if the forecasts are inflated, planning around them can be disastrous. As a well-known case in point, Cisco in 2001 had to write off \$2.1 billion in excess inventory because of overly optimistic customer forecasts. Simply, if the forecast is costless, non-binding, and nonverifiable, it is just "cheap talk," and the buyer has an incentive to inflate its forecast. The authors observe in controlled laboratory experiments that parties do tend to provide more accurate information than previously thought because of trust that is built between the parties over time. The authors determine when trust is important in forecast information sharing, how trust is affected by changes in the supply chain environment, and how trust affects related operational decisions. The insight for management: If capacity cost expansion is low or product variability is low, simple "cheap talk" forecast sharing is relatively reliable because of trust factors, but, for highly variable demand and high-cost capacity expansion industries, more complex contracts are in order.

Mandatory Fair Value Accounting and Information Asymmetry: Evidence from the European Real Estate Industry (p. 1138)

Karl A. Muller, III, Edward J. Riedl, Thorsten Sellhorn

With the adoption of International Financial Reporting Standards (IFRS) in more than 100 countries and the growing convergence of U.S. generally accepted

accounting principles (GAAP) with IFRS, the U.S. Securities and Exchange Commission (SEC) is currently considering making IFRS mandatory for U.S. public companies by 2015. The authors examine the effects of mandating the provision of fair-value information for long-lived tangible assets on firms' information asymmetry. They find that mandatory adoption firms exhibit a larger decline in information asymmetry, as reflected in lower bid–ask spreads. However, they also find that mandatory adoption firms continue to have higher information asymmetry than voluntary adoption firms, which appears partially attributable to the lower reliability of fair values reported by the mandatory adoption firms. The insight for management: Common adoption of fair value, even for long-lived tangible assets, under a mandatory reporting regime can reduce, but not necessarily eliminate, information asymmetry differences across firms.

The Impact of Demand Aggregation Through Delayed Component Allocation in an Assemble-to-Order System (p. 1154)

[Fernando Bernstein](#), [Gregory A. DeCroix](#), [Yulan Wang](#)

When does deferral of allocation decisions pay off for companies that assemble to order? The authors consider an assemble-to-order system in which multiple products are assembled from a common component and a set of product-dedicated components.

They propose a collection of allocation mechanisms involving various degrees of demand aggregation, ranging from a scheme under which all demands are observed prior to making the allocation decision to allocations made for each arriving demand. The insight for management: The benefit from increased demand aggregation is closely linked to the degree of capacity imbalance. Profit gains from delayed allocation tend to be higher in systems in which the optimal capacity portfolio is highly unbalanced when the allocation decision is made after observing all demands.

Efficient Risk Estimation via Nested Sequential Simulation (p. 1172)

[Mark Broadie](#), [Yiping Du](#), [Ciamac C. Moallemi](#)

Can financial risk be estimated in a simulation environment? The authors analyze the computational problem of estimating financial risk in a nested simulation. In this approach, an outer simulation is used to generate financial scenarios, and an inner simulation is used to estimate future portfolio values in each scenario. The authors focus on the probability of a large loss, and they propose a new algorithm to estimate this risk. The algorithm sequentially allocates computational effort in the inner simulation based on marginal changes in the risk estimator in each scenario. The insight for management: Nested simulation can be used to generate a more efficient risk estimator than previous approaches.