



Management Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

Management Insights

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To cite this article:

Michael F. Gorman, (2012) Management Insights. Management Science 58(6):iv-vi. <https://doi.org/10.1287/mnsc.1120.1588>

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Management Insights

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Hiring Cheerleaders: Board Appointments of “Independent” Directors (p. 1039)

[Lauren Cohen](#), [Andrea Frazzini](#),
[Christopher J. Malloy](#)

How independent are “independent” board members? The authors provide evidence that firms appoint independent directors who are overly sympathetic to management, while still technically independent according to regulatory definitions. Based on detailed microlevel data on sell-side analysts who are subsequently appointed to the boards of companies they previously covered, the authors find that boards appoint overly optimistic analysts who are also poor relative performers. The magnitude of the optimistic bias is large: 82.0% of appointed recommendations are strong buy/buy recommendations, compared with 56.9% for all other analyst recommendations. The authors also find that appointing firms are more likely to have management on the board nominating committee, appear to be poorly governed, and increase earnings management and chief executive officer compensation after these board appointments. The insight for management: A CEO’s friends may be his business’s foes; an independent board is essential to get appropriate, frank, and critical feedback on decisions that are essential for sustained firm performance.

Home Sweet Home: Entrepreneurs’ Location Choices and the Performance of Their Ventures (p. 1059)

[Michael S. Dahl](#), [Olav Sorenson](#)

Is there a home-field advantage for new business ventures? Entrepreneurs, even more than employees, tend to locate in regions in which they have deep roots. One might expect entrepreneurs to perform better in these regions because of their richer endowments of regionally embedded social capital, but they might also perform worse if their location choices rather reflect a preference for spending time with family and friends. The authors examine comprehensive data on Danish start-ups and find that

ventures survive longer and generate greater annual profits and cash flows when located in regions in which their founders have lived longer. The insight for management: New business owners, go home! Success is more likely where connections are strong and run deep.

Consumption Externality and Yield Uncertainty in the Influenza Vaccine Supply Chain: Interventions in Demand and Supply Sides (p. 1072)

[Kenan Arifoğlu](#), [Sarang Deo](#), [Seyed M. R. Iravani](#)

How can influenza vaccines be more widely taken to improve public health? Typically, the demand for such vaccinations is lower than socially optimal because individuals do not internalize the social benefit of protecting others via reduced infectiousness (known as a positive externality). The authors show that the supply side can also be found at fault; there is typically limited supply due to yield uncertainty and manufacturer’s incentives. This shortage leads to a negative externality; self-interested individuals ignore that vaccinating people with high infection costs is more beneficial for the society when supply is limited. The authors show that the negative externality can be reduced through more efficient and less uncertain allocation mechanisms. The insight for management: Administering vaccine distribution has both supply-side and demand-side components; more effective disease control can be achieved through both greater application and smarter allocation.

An Evidence-Based Incentive System for Medicare’s End-Stage Renal Disease Program (p. 1092)

[Donald K. K. Lee](#), [Stefanos A. Zenios](#)

Recent legislations directed Medicare to revamp its decades-old system for reimbursing dialysis treatments, with a focus on the risk adjustment of payments and on the transition toward a pay-for-compliance system. But questions remain: Can a pay-for-compliance system based only on the intermediate performance measures currently identified by

Medicare achieve first-best? How should patient outcomes be risk adjusted, and what welfare gains can be achieved by doing so? The authors find that the current set of intermediate measures identified by Medicare are not comprehensive enough for use alone in a pay-for-compliance system. They suggest that paying for risk-adjusted downstream outcomes instead of raw downstream outcomes can improve health-care outcomes. The insight for management: Modified Medicare terms could lengthen the hospital-free life of admitted patients by two weeks per patient per year without increasing Medicare expenditures.

Organizational Structure and the Limits of Knowledge Sharing: Incentive Conflict and Agency in Car Leasing (p. 1106)

Lamar Pierce

Can conflicting incentives among managers impede potential knowledge-sharing benefits from vertical integration? The author studies behaviors in the car leasing market, where manufacturer-owned captive lessors compete with independent lessors. In order to be profitable, both organizational forms must acquire and integrate diffuse knowledge to accurately predict vehicle depreciation. Using a data set of 180,000 leases, the author compares contracts of independent and captive lessors across car models, market conditions, and product life cycles. He finds that managers in vertically integrated firms have conflicting incentives on whether to accurately and completely share proprietary knowledge, and he shows that these incentives appear to generate agency costs inconsistent with corporate profitability as managers selectively use and share knowledge for personal gain. The insight for management: Most knowledge benefits of vertical integration will be nullified when managerial interests are incompatible with the profit concerns of the firm.

Reconceptualizing Stars: Scientist Helpfulness and Peer Performance (p. 1122)

Alexander Oettl

Are star researchers to be idolized, or should they thank their lucky stars that they have great colleagues? Innovation is often the result of a communal process; how much of the star's brilliance comes from the constellation around him or her? The author uses a combination of academic paper publications and citations to capture scientist productivity and the receipt of academic paper acknowledgments to measure helpfulness. The author examines the change in publishing output of the coauthors of 149 scientists who have died and finds that coauthors of highly acknowledged scientists who die experience

a decrease in output quality but not output quantity. Meanwhile, the deaths of high-productivity scientists who are not highly helpful do not influence their coauthors' output. In addition, scientists who are helpful with conceptual feedback (critique and advice) have a larger impact on the performance of their coauthors than scientists who provide help with material access, scientific tools, or technical work. The insight for management: Within the context of evaluating scientific productivity, it may be time to broaden our conceptualization of a "star" and rather view entire constellations of researchers.

Specialization and Variety in Repetitive Tasks: Evidence from a Japanese Bank (p. 1141)

Bradley R. Staats, Francesca Gino

What enhances the productivity of employees who conduct repetitive tasks? Does variety of work increase worker satisfaction and motivation, or does specialization of tasks improve throughput? Sustaining operational productivity in the completion of repetitive tasks is critical to many organizations' success. On one hand, specialization to capture the benefits of repetition and variety (i.e., working on different tasks) can keep workers motivated and provide them opportunities to learn. On the other hand, repetition creates efficiency by increasing mastery of one task, improving expertise, and reducing rework. The authors use two and a half years of transaction data from a Japanese bank's home loan application-processing line and find that, over the course of a single day, specialization, as compared to variety, is related to improved worker productivity. However, when they examine workers' experience across a number of days, they find that variety helps improve worker productivity. The insight for management: Organizations should transform specialization and variety into mutually reinforcing strategies instead of treating them as mutually exclusive.

Advance Selling When Consumers Regret (p. 1160)

Javad Nasiry, Ioana Popescu

How should firms position products when consumers have uncertain valuations and could regret the purchase? Consumers who make advance purchases might regret it if they find out that the product is not worth what they spent. Consumers who delay their purchase may regret from missing a discount or facing a stockout. Regret explains two types of behavioral patterns: inertia (delayed purchase) and frenzies (buying early at negative surplus). Action regret reduces profits as well as the value of advance selling and booking limit policies for price-setting firms. The insight for management: Profit loss effects of regret

on profits can be mitigated by marketing campaigns, refund offers, and product resales.

Double Marginalization in Performance-Based Advertising: Implications and Solutions (p. 1178)
Chrysanthos Dellarocas

How should online advertisers and sellers establish the value of an online advertisement? An important current trend in advertising is the replacement of traditional pay-per-exposure (pay-per-impression) pricing models with performance-based mechanisms in which advertisers pay only for measurable actions by consumers. Such pay-per-action (PPA) mechanisms such as pay-per-click, pay-per-call, and pay-per-sale are becoming the predominant method of selling advertising on the Internet. However, such advertising methods may affect market pricing. The author suggests that if advertisers set prices to maximize profits net of advertising expenses, PPA mechanisms induce firms to distort the prices of their goods (usually upward), reducing both consumer surplus and the joint publisher–advertiser profit. The insight for management: Popular PPA advertising fee mechanisms should be restructured in ways that benefit both seller and buyer.

The Strategic Perils of Low Cost Outsourcing (p. 1196)
Qi Feng, Lauren Xiaoyuan Lu

Does low cost outsourcing always lead to a win–win outcome for both supplier and manufacturer? The authors show that low cost outsourcing may lead to a win–lose outcome in which the suppliers gain and the manufacturers lose. This happens because suppliers' cost advantage may backfire on competing

manufacturers through two negative effects. First, a decrease of upstream cost weakens a manufacturer's bargaining position because a competing manufacturer can obtain a low cost position through outsourcing. Second, the common supplier's bargaining position is strengthened with a lower-cost structure that can serve either manufacturer. The authors explain the importance of considering competition in the outsourcing decision. Because the supplier engages in two negotiations, its share of profit from the trade with one manufacturer affects the total surplus of the trade with the other manufacturer. The insight for management: Outsourcing to a common low cost supplier might have surprising consequences; despite the reduction in manufacturer bargaining power, profit may actually increase, further increasing the incentive to outsource.

Information Technology and Trademarks: Implications for Product Variety (p. 1211)
Guodong (Gordon) Gao, Lorin M. Hitt

Is there a connection between information technology (IT) and trademarks? The authors use an 11-year panel data set (1987–1997) of IT capital stock, trademark holdings, and other measures for 116 Fortune 1000 manufacturing firms and find that IT contributes to higher trademark holdings. They also find evidence suggesting that firms with more IT capital tend to apply for more new trademarks and retire existing trademarks more quickly, leading to a shorter trademark life cycle. The insight for management: Because trademarks are mainly used by firms to communicate differences among similar products to the marketplace, the business value of IT can be realized in greater product variety.