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Management Insights

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Local Religious Beliefs and Mutual Fund Risk-Taking Behaviors (p. 1779)

Tao Shu, Johan Sulaeman, P. Eric Yeung

Do local religious beliefs affect mutual fund risk-taking behaviors? The authors suggest that they do; they find that funds located in low-Protestant or high-Catholic areas exhibit significantly higher fund return volatilities. Similar differences persist when the authors use the religiosity ratios at fund managers' college locations. Risk taking associated with local religious beliefs manifests in higher portfolio concentrations, higher portfolio turnover, and more aggressive interim trading, but not over-weighting risky individual stocks. The insight for management: Local religious beliefs have significant influences on mutual fund behaviors.

Corporate Strategy, Analyst Coverage, and the Uniqueness Paradox (p. 1797)

Lubomir P. Litov, Patrick Moreton, Todd R. Zenger

Should firms take the road less traveled when charting corporate strategy? On one hand, capital markets systematically discount uniqueness in the strategy choices of firms. Uniqueness in strategy heightens the cost of collecting and analyzing information to evaluate a firm's future value. These greater costs in strategy evaluation discourage the collection and analysis of information regarding the firm and result in a valuation discount. On the other hand, uniqueness in strategy is a necessary condition for creating economic rents and should, except for this information cost, be positively associated with firm value. The authors find empirical support for both propositions using a novel measure of strategy uniqueness in a firm panel data set between 1985 and 2007. The insight for management: Dare to be different, but not too different; unique strategies can lead to great success but are not likely to be well understood by markets and will face challenges.

Contingent Capital with a Capital-Ratio Trigger (p. 1816)

Paul Glasserman, Behzad Nouri

"Contingent capital"—debt that converts to equity when a bank faces financial distress—has been proposed as a mechanism to enhance financial stability and avoid costly government rescues. But what are the appropriate "conversion trigger" and "conversion mechanism" that most support stability? The authors analyze the case of contingent capital with a capital-ratio trigger and partial and ongoing conversion. The conversion process is partial and ongoing in the sense that each time a bank's capital ratio reaches the minimum threshold, just enough debt is converted to equity to meet the capital requirement, so long as the contingent capital has not been depleted. The authors determine the market value for such assets under certain assumptions. The insight for management: Contingent capital valuation methodologies and strategies are being developed.

Dividend Smoothing and Predictability (p. 1834)

Long Chen, Zhi Da, Richard Priestley

Corporations avoid volatile dividends because it creates unpredictability that increases the variance of stock price. But how does dividend smoothing, as a choice of corporate policy, affect stock price predictability? The authors show that even if dividends are supposed to be predictable without smoothing, dividend smoothing can bury this predictability. Based on empirical analysis, the authors posit that dividends are smoothed in the post-World War II period. Based on net payout and earnings data, the authors reach the consistent conclusion that cash flow news plays a more important role than discount rate news in price variations in the postwar period. The insight for management: Dividend smoothing is an important ingredient for avoiding stock price variability.

Large-Scale Service Marketplaces: The Role of the Moderating Firm (p. 1854)

Gad Allon, Achal Bassamboo, Eren B. Çil

Recently, large-scale, Web-based service marketplaces, where many small service providers compete among themselves in catering to customers with diverse needs, have emerged. What is the role of the moderating firm in facilitating information gathering, operational efficiency, and communication among agents in service marketplaces? The authors study the scale of such marketplaces and the impact it has on the outcomes. The authors note that customers who frequent these marketplaces seek quick resolutions and thus are usually willing to trade prices with waiting times. Surprisingly, the authors show that operational efficiency may be detrimental to the overall efficiency of the marketplace. Furthermore, the authors establish that to reap the “expected” gains of operational efficiency, the moderating firm may need to complement the operational efficiency by enabling communication among its agents. The insight for management: Online market structure affects pricing and operational and pricing efficiency.

Hierarchies and the Survival of Prisoners of War During World War II (p. 1873)

Clifford G. Holderness, Jeffrey Pontiff

The military hierarchy is essential to survival on the battlefield. But how does that hierarchy affect survival in a prison camp? As it turns out, a more egalitarian structure allows for trading among prisoners and improves survival rates. Using a comprehensive database of American prisoners of war during World War II, the authors find that survival from captivity generally declines as the hierarchy of a prisoner’s group becomes steeper or more closely matches the military’s established hierarchy. The insight for management: The military’s WWII hierarchy was too inflexible to adapt from the battlefield to captivity.

A Generalized Norton–Bass Model for Multigeneration Diffusion (p. 1887)

Zhengru Jiang, Dipak C. Jain

The Norton–Bass (NB) model is often credited as the pioneering multigeneration diffusion model in marketing. However, as acknowledged by the authors, when counting the number of adopters who substitute an old product generation with a new generation, the NB model does not differentiate those who have already adopted the old generation from those who have not. In this study, the authors develop a generalized Norton–Bass (GNB) model that separates the two different types of substitutions. The GNB model provides closed-form expressions for both the number of

units in use and the adoption rate, and it offers greater flexibility in parameter estimation, forecasting, and revenue projection. An appealing aspect of the GNB model is that it uses exactly the same set of parameters as the NB model and is mathematically consistent with the latter. Empirical results show that the GNB model delivers better overall performance than previous models in terms of both model fit and forecasting performance. The analyses also show that differentiating leapfrogging and switching adoptions based on the GNB model can help gain additional insights into the process of multigeneration diffusion. Furthermore, the authors demonstrate that the GNB model can incorporate the effect of marketing mix variables on the speed of diffusion for all product generations.

Managing Disruption Risk: The Interplay Between Operations and Insurance (p. 1898)

Lingxiu Dong, Brian Tomlin

Disruptive events that halt production can have severe business consequences if not appropriately managed. Business interruption (BI) insurance offers firms a financial mechanism for managing their exposure to disruption risk. Firms can also use operational measures to manage the risk. What is the relationship between BI insurance and operational measures to mitigate BI costs? The authors characterize the interaction of the optimal insurance deductible and coverage limit as well as the optimal inventory level. They find that insurance and operational measures are not always substitutes and establish conditions under which they can be complements; that is, insurance can increase the marginal value of inventory and can increase the overall value of emergency sourcing. The authors also find that the value of insurance is higher for those firms less able to absorb financially significant disruptions. As disruptions become longer but rarer, the value of emergency sourcing increases, and the value of inventory and the value of insurance increase before eventually decreasing. The insight for management: BI insurance and inventories have complex interactions in the effort to mitigate business interruption risk.

Asset Pricing Restrictions on Predictability: Frictions Matter (p. 1916)

Frans de Roon, Marta Szymanowska

Asset pricing models predict a risk–price relationship that is not always observed empirically. What is the explanation for deviations? The authors sort U.S. stock portfolios on size, momentum, transaction costs, market-to-book, investment-to-assets, return-on-assets (ROA) ratios, and industry classification, and they find considerable levels and variation of return predictability, inconsistent with asset pricing

models. The authors show that a predictable risk premium is not equal to compensation for systematic risk as implied by asset pricing theory. Their explanation: Market frictions create these deviations, converting an equality into a range prediction. Transaction costs (below 35 basis points) help to reconcile the observed predictability. The authors find that predictability in industry returns can be reconciled with a 25- to 115-basis-point transaction cost. The insight for management: Market friction in the form of transaction costs can affect the predicted valuation of an asset.

Supply Chain Performance Under Market Valuation: An Operational Approach to Restore Efficiency (p. 1933)

[Guoming Lai, Wenqiang Xiao, Jun Yang](#)

How is supply chain performance affected by market valuation? The authors study the stocking decision of a buyer who has the incentive to influence their capital market valuation. They find that the buyer's decisions are suboptimal in some cases, which hurts the buyer firm's own performance, and it also influences the performances of the supplier and the supply chain. The authors characterize conditions under which a menu of buyback contracts can prevent downstream stocking distortion and restore full effi-

ciency in the supply chain. The insight for management: In a supply chain context, a firm's incentive to undertake real economic activities to influence capital market valuation can potentially be resolved through operational means.

Modeling Bounded Rationality in Capacity Allocation Games with the Quantal Response Equilibrium (p. 1952)

[Yefen Chen, Xuanming Su, Xiaobo Zhao](#)

How does proportional rationing of capacity in time of short supply affect ordering behavior? The authors experimentally study the capacity allocation game and find that the prevailing theoretical "Nash equilibrium" solution, which assumes that players are perfectly rational, substantially exaggerates retailers' tendency to strategically order more than they need. The authors consider a model of bounded rationality in which players are not perfect optimizers and face uncertainty in their opponents' actions. The authors find that participants become more rational through repeated game play but may not converge to perfect rationality as assumed by the Nash equilibrium. The insight for management: Rational behavior is often assumed but is not always followed in complex games with uncertainty.