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Management Insights

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The Behavioralist Visits the Factory: Increasing Productivity Using Simple Framing Manipulations (p. 2151)

[Tanjim Hossain, John A. List](#)

Losses loom large! Experimental economists have found that by framing an option as the lesser of two evils, rather than the better of two benefits, they can dramatically affect decision makers' choices. The authors extend these experimental results by taking advantage of a unique opportunity to work with a Chinese high-tech manufacturing facility in an attempt to increase worker productivity in the facility. The authors found that conditional incentives framed as both "losses" and "gains" increase productivity for both individuals and teams. In addition, teams more acutely respond to bonuses posed as losses than to comparable bonuses posed as gains. The insight for management: The magnitude of this framing effect is roughly 1%: that is, total team productivity is enhanced by 1% purely due to the framing manipulation, and this difference is maintained over time.

Selling to Conspicuous Consumers: Pricing, Production, and Sourcing Decisions (p. 2168)

[Necati Tereyağoglu, Senthil Veeraraghavan](#)

Consumers often purchase goods that are "hard to find," such as Piaget watches, to conspicuously display their exclusivity and social status. Firms that produce such conspicuously consumed goods such as designer apparel, fashion goods, jewelry, etc., often face challenges in making optimal pricing and production decisions. How are pricing, production, and sourcing decisions affected by consumer snobbery? Producers are confronted with precipitous trade-off between high sales volume and high margins, because of the highly uncertain market demand, strategic consumer behavior, and the display of conspicuous

consumption. The authors show that firms may offer high availability of goods despite the presence of conspicuous consumption. They show that scarcity strategies are harder to adopt as demand variability increases in many cases. The authors suggest that in order to credibly commit to scarcity strategy, firms can adopt sourcing strategies, such as sourcing from an expensive production location/supplier or using expensive raw materials. The insight for management: A strategy of product scarcity and conspicuous consumption is hard to maintain but is helped by high costs of production to make the strategy more sustainable.

Robust Simulation of Global Warming Policies Using the DICE Model (p. 2190)

[Zhaolin Hu, Jing Cao, L. Jeff Hong](#)

How can the validity of long-term projections on global warming be validated and their accuracy assessed? Because there are typically profound uncertainties in the geophysical and economic inputs to these models, a simulation approach is often used. This approach requires the distribution of the uncertain parameters clearly specified; however, this is typically impossible because there is often a significant amount of ambiguity from estimation error in specifying the distribution. The authors use a worst-case approach to account for this ambiguity to produce robust evaluation of policy. They test the algorithm on a famous integrated model of climate change, known as the Dynamic Integrated Model of Climate and the Economy (DICE model), and they find that the DICE model is sensitive to the means and covariance of the parameters. The authors evaluate previously proposed and well-known policies, such as Al Gore's proposal that aims to reduce the global CO₂ by 90% by 2050, and Britain's Sir Nicholas Stern's claims that spending only 1%–2% of the global GDP now could save the future potential climate loss at a magnitude of around 20% of the global GDP. The

insight for management: Moderately tight environmental policies robustly outperform a “no controls policy” and the famous aggressive policies proposed by Stern and Gore.

Reflected Knowledge and Trust in Global Collaboration (p. 2207)

Mark Mortensen, Tsedal B. Neeley

How can knowledge be increased and trust be built between remote sites to improve global collaboration? “Direct knowledge” is created by gaining insights into distant collaborators’ personal characteristics, relationships, and behavioral norms. The authors suggest that an equally important trust mechanism is “reflected knowledge,” knowledge that workers gain about the personal characteristics, relationships, and behavioral norms of their own site through the lens of their distant collaborators. The authors conducted a survey of 140 employees in a division of a global chemical company and found that direct knowledge and reflected knowledge enhanced trust in distinct ways. Although both enhanced feelings of closeness with others, results indicate that direct knowledge increased focal actors’ understanding of their distant colleagues, whereas reflected knowledge promoted feelings of being understood. The insight for management: Knowledge can be amassed and trust built in both direct and indirect fashions to improve global collaboration.

Managers and Students as Newsvendors (p. 2225)

Gary E. Bolton, Axel Ockenfels, Ulrich W. Thonemann

How much inventory should a company with a perishable resource such as a newspaper carry? The authors compare how experienced managers and students fare in this classic problem. They find that managers broadly exhibit the same kind of “pull-to-center bias” (a tendency to carry an amount of inventory closer to the mean) that students do. They also find that managers use information and task training no better than students. They do find that the performance of managers is positively affected by the level of their education and their level in the organizational hierarchy. The insight for management: Your managers may not be much better than a student at handling the inventory carrying decision with the appropriate analytical approach.

On the Efficiency-Fairness Trade-off (p. 2234)

Dimitris Bertsimas, Vivek F. Farias, Nikolaos Trichakis

How does one approach the problem of designing the “right” objective for a resource allocation problem?

The notion of what is right can be fairly nebulous; the authors consider two key issues: efficiency and fairness. They approach the problem of designing objectives that account for the natural tension between efficiency (maximizing the return from resources) and fairness (an equitable distribution of those returns). They consider a family of objectives for their fairness and efficiency, and they suggest approaches for selecting the appropriate objective from this family. They characterize the trade-off achieved between efficiency and fairness as one selects different objectives, and they develop several concrete managerial prescriptions for the selection problem based on this trade-off. The insight for management: The efficiency-fairness trade-off is a challenge for most managers; understanding this trade-off helps managers choose the appropriate objective function.

The Impact of Royalty Contract Revision in a Multistage Strategic R&D Alliance (p. 2251)

Wenqiang Xiao, Yi Xu

How does royalty revision affect participant incentives and profits in an alliance between a marketer and an innovator? The authors find that the potential for royalty revision after the research and development (R&D) stage in the marketing stage leads to distortions in the optimal initial royalty contracts offered by the marketer. The authors show that if the innovator plays a significant role in the marketing stage, the marketer should offer a low royalty rate initially and then revise the royalty rate up later. They find that royalty revision provides the marketer with the flexibility to dynamically adjust royalty rates across the two stages of the alliance to better align the innovator’s incentives and improve profits. They also find that royalty revision makes it harder for the marketer to obtain private information from the innovator because the innovator worries that the marketer will take advantage of the information to revise the initial contract to a more favorable one later, hurting the marketer’s profit. The insight for management: Use a contingent contract (if possible) either to replace or in conjunction with royalty revision accordingly to improve profits.

Do Investment Banks’ Relationships with Investors Impact Pricing? The Case of Convertible Bond Issues (p. 2272)

Brian J. Henderson, Heather Tookes

Do investment banks’ relationships with investors impact pricing? The authors examine the role of repeat interactions between investment banks and

investors in the initial pricing of convertible bonds. Although some experts hypothesize that “favoritism” exists between banks and investors in which banks use underpricing to reward favored clients, these authors suggest that attracting repeat investors can legitimately reduce search frictions in primary issue markets. The authors use a sample of 601 Rule 144A issues for the years 1997–2007 to test their claim. The insight for management: Search frictions play a meaningful role in initial convertible bond pricing and, specifically, intermediaries can add substantial value through repeated interactions with investors.

Pathwise Optimization for Optimal Stopping Problems (p. 2292)

Vijay V. Desai, Vivek F. Farias, Ciamac C. Moallemi

How should sellers set prices in markets where buyer search is costly? The authors introduce a new procedure called pathwise optimization (PO), which produces good upper and lower bounds on the optimal price. Their bounds are comparable to state-of-the-art methods but are found in a fraction of the time. The insight for management: The PO method constitutes a practical and desirable approach to high-dimensional pricing problems.