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Management Insights

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Competitive Incentives: Working Harder or Working Smarter? (p. 771)

Anat Bracha, Chaim Fershtman

Can we design work incentives to spur employees to work both harder and smarter? Almost all jobs require a combination of cognitive effort and labor effort. The authors examine the effect that incentive schemes have on the chosen combination of cognitive and labor effort. They show that competitive incentives may induce agents to work harder but not necessarily smarter. The insight for management: It is difficult to think under pressure, and therefore competitive pressure has a negative impact on cognitive effort but a positive impact on labor effort.

Analyzing Screening Policies for Childhood Obesity (p. 782)

Yan Yang, Jeremy D. Goldhaber-Fiebert,
Lawrence M. Wein

What can be done about obesity? Because of the health and economic costs of childhood obesity, coupled with studies suggesting the benefits of comprehensive intervention (dietary changes, physical activity, and behavioral counseling), the U.S. Preventive Services Task Force recently recommended childhood screening and intervention for obesity beginning at age 6. The authors use a data set consisting of the body mass index of children up to age 18 and another data set containing the body mass index at ages 18 and 40 with the presence or absence of hypertension and diabetes to formulate the optimal biennial obesity screening thresholds from a societal viewpoint. The insight for management: Adult hypertension and diabetes can be minimized by focusing childhood obesity screening and treatment on older adolescents, but the optimal childhood obesity screening policies are as yet unclear.

Class-Restricted Clustering and Microperturbation for Data Privacy (p. 796)

Xiao-Bai Li, Sumit Sarkar

How can businesses leverage the plethora of data now available without threatening the privacy of their customers? The extensive use of information technologies by organizations to collect and share personal data has raised strong privacy concerns. For example, AOL drew fire for releasing 20 million search queries to the public, and Netflix had to cancel the second round of its movie recommendation competition because its customers were concerned about their privacy and being “reidentified”—that is, individually identified even though the personal information was stripped. The authors propose a method of clustering data so that data points within a group are similar in the nonconfidential attribute values, whereas the confidential attribute values within a group are well distributed. They also propose a “microperturbation” method for masking data that overcomes other clustering methods’ inability to preserve important statistical properties such as the variance of attributes and the covariance across attributes. The insight for management: It is possible to distribute and gain insights from data without threatening the privacy of those who generated it by masking private details without reducing the information that can be gleaned from it.

Managing Strategic Inventories via Manufacturer-to-Consumer Rebates (p. 813)

Anil Arya, Brian Mittendorf

Do you clip coupons? In 2011, coupons alone accounted for \$4.6 billion in consumer redemptions, and it is estimated that other postpurchase rebates have soared to \$8 billion annually. Manufacturer-to-consumer rebates are a staple of modern supply chains. Such rebates are typically viewed as a means

of price discrimination because of partial redemption by consumers. However, the proliferation of universally redeemed instant rebates suggests that the practice may be motivated by additional considerations. The authors suggest that consumer rebates can be particularly useful when a supply chain shows inefficiencies from retailers holding excess inventory to convey a lower willingness to pay in the future to undercut future wholesale prices. As a retaliatory consequence, the manufacturer sets high near-term wholesale prices. The “pull” promotion from consumer rebates encourages more timely retail sales and in doing so undercuts (but does not eliminate) the retailer’s strategic inventories. Surprisingly, the authors find that the manufacturer, retailer, and consumers alike all benefit from the use of rebates, despite the fact that the manufacturer uses the rebates in self-interest and as a strategic weapon. The insight for management: The introduction of consumer rebates can serve as an enticement for retailers to sell, not just for consumers to buy.

Overcoming Resistance to Organizational Change: Strong Ties and Affective Cooptation (p. 819)

[Julie Battilana](#), [Tiziana Casciaro](#)

Keep your friends close and your enemies closer! The authors develop a theory of how members of an organization use the strength of ties in their network to overcome resistance to change. The authors propose that potentially influential “fence sitters” can be affected by strong ties to change agents. This cooptation increases the probability that the organization will adopt the change. However, ties to influential organization resisters to change work only for small changes. With bigger changes, the advantages of strong ties to resisters are weaker and may turn into liabilities that reduce the likelihood of change adoption. The insight for management: Team with resisters to stop a leak but not a tidal wave; team with change agents to create one.

Knowledge Recombination Across Technological Boundaries: Scientists vs. Engineers (p. 837)

[Marc Gruber](#), [Dietmar Harhoff](#), [Karin Hoisl](#)

How do individual-level characteristics of inventors affect the breadth of their recombination of different technologies to generate radical innovations? This ability has been viewed as the “holy grail” of innovation research for a century. The authors reviewed 30,550 European patents from 1,880 inventors and found that inventors with a scientific education are more likely to generate patents that span technological boundaries than those with an engineering degree, but a doctoral degree is associated with increased

recombination breadth. The breadth of an inventor’s technological recombinations diminishes with time since his formal education, but the differences between scientists and engineers persist over time. The insight for management: Broader and deeper education of inventors leads to broader creativity and recombination of ideas than a narrower engineering degree.

Momentum and Organizational Risk Taking: Evidence from the National Football

League (p. 852)

[David W. Lehman](#), [Jungpil Hahn](#)

Does going for it on fourth down build momentum, or is the risk unwarranted? The authors reviewed 22,603 play-by-play decisions made by the 32 teams of the National Football League during the 2000–2005 regular season games. They evaluate how such risks affect slack (resources in excess of current performance), aspirations (based on past performance or on the performance of other organizations), and survival. Most importantly, such risk-taking behaviors seem to be affected by momentum. The insight for management: Risk taking builds on itself; better forecasts of future firm behaviors might be achieved by taking momentum into account.

Multistage Capital Budgeting with Delayed Consumption of Slack (p. 869)

[Stanley Baiman](#), [Mirko S. Heinle](#), [Richard Saouma](#)

How can a firm’s capital budgeting policies balance investment efficiency against managers’ consumption of perquisites? To limit the opportunities for managers to divert capital funds for private benefit, firms use their managerial accounting systems and audits of their capital projects. For example, these systems can easily uncover, and thereby preclude, the manager’s diversion of capital funds from appropriate investments to private uses such as vacations or excess compensation. However, it is more difficult for these systems to distinguish between investments in necessary and unnecessary assets, provided that both fall within the general class of appropriate purchases. For instance, it may be difficult to detect that a manager is engaging in empire building (acquiring unnecessary hard assets such as research equipment, cars, or offices, or unnecessary soft assets such as staff and consulting services) from which he derives private benefits. Thus, at best the firm’s accounting and auditing systems may mitigate a manager’s misuse by constraining the set of assets into which he can divert capital funds for private benefit. For example, the private benefit of lavish offices is consumed

over the time that the manager actually uses these offices (as compared to excess compensation or vacations, whose benefits are consumed immediately). The insight for management: Restricting investment to specific asset classes can reduce the private benefit to the manager to those consumed over time.

Failure and Rescue in an Interbank Network (p. 882)

[L. C. G. Rogers, L. A. M. Veraart](#)

How do interbank obligations affect the fragility of our financial system? Over the last 10 or so years, there has been a growth of interest in the general phenomenon of the spread of bank failure through a network of interbank obligations. As the Asian banking crisis of the late 1990s and the more recent banking crisis of 2007–2008 have shown, the banking system generally can be very vulnerable to deterioration of assets, loss of liquidity, and loss of confidence. The authors study systemic risk in an interbank market, modeled as a directed graph of interbank obligations. The authors are able to analyze how failing banks might be rescued by consortia of other banks, establishing the important results that any consortium that has an incentive to rescue the failing banks also has the means and that any consortium of banks that would fail if default were allowed to spread would have an incentive to rescue if it had the means. The insight for management: Modeling may allow for reduced risks in and improved rescue mechanisms for our financial system.

Add-on Pricing by Asymmetric Firms (p. 899)

[Jeffrey D. Shulman, Xianjun Geng](#)

What is the effect of add-on pricing on profitability and customer satisfaction? Consumers are often faced with fees for add-ons not included in the price of a base product (or service). For example, hotel guests, after room rates are already paid, often have to pay additional charges for services such as Internet access, parking, and use of a safe, a fitness center, and a pool. Banks charge fees for consumers who opt to cancel a check, use a foreign ATM, or use a debit card. Air travelers frequently find themselves paying for pet transport, snacks, checked luggage, and even blankets. Cell phone service providers charge subscribers to send text messages and download data. The authors examine the consequences of add-on pricing with consumers who are unaware of the add-on fees at the time of initial purchase. As it turns out, who benefits depends on the knowledge of the quality of the base product and the add-on items. The insight for management: Before a firm engages in

add-on pricing strategies, it should evaluate the quality of base and add-on products.

Publicizing Performance (p. 918)

[Günter Strobl, Edward D. Van Wesep](#)

Why not hide employee success from competitors to reduce poaching? Firms often do not attempt to keep their best employees hidden. Indeed, they often do just the opposite, by giving good employees impressive-sounding job titles and awards and, if asked, providing good letters of recommendation. This behavior is puzzling, because it makes it easier for competitors to poach a firm's best employees. As it turns out, firms that establish reputations for hiring young workers and promoting those who succeed lose good workers to competitors but can pay less to young, inexperienced workers in exchange. The authors find that firms with reputations for publicizing performance are able to pay less to employees at every level of tenure and thus earn economic profit but that these firms will never be the most productive in the economy. The insight for management: Public celebration of employee success may risk poaching and higher turnover, but the in-kind payment may also allow for the firm to pay lower employee wages.

First-Party Content and Coordination in Two-Sided Markets (p. 933)

[Andrei Hagiu, Daniel Spulber](#)

Bill Gates said, "Content is king." This statement rings true because many firms use content as in-kind payments to attract customers. But how should this content be coordinated? The software, Internet, and mobile communications revolutions have created information distribution systems of unprecedented efficiency and vast markets for content (e.g., news, entertainment, data, software applications, games, articles, books, music, images, and video). Examples of platforms supplying first-party content include the following: e-commerce sites (e.g., Amazon) provide customer ratings, search engines (e.g., Google) provide search results (website links), social networks (e.g., Facebook) provide network information (friend suggestions), and the like. The authors find that the strategic use of first-party content by two-sided platforms is driven by two key factors: the nature of buyer and seller expectations (favorable versus unfavorable) and the nature of the relationship between first-party content and third-party content (complements or substitutes). The insight for management: Coordinating first- and third-party content depends on the market for such products and the complementarity of first- and third-party products.

**Industry or Academia, Basic or Applied?
Career Choices and Earnings Trajectories of
Scientists** (p. 950)

Rajshree Agarwal, Atsushi Ohyama

They say, “Different strokes for different folks,” but what factors drive career choices and earnings trajectories? Many studies have looked at earnings potential of different career choices, but few have looked at the individual factors that contribute to career choice and the resulting self-sorting and earnings evolution. The authors link differences in physical capital investments and complementarities between basic and applied scientists across industry and academic settings to individual differences in scientist ability and preferences to predict an equilibrium matching of scientists to careers and to their earnings evolution. The study, based on the National Science Foundation’s Scientists and Engineers Statistical Data System database, finds two results. First, there is a sorting by ability into basic versus applied science among academic scientists, but not among industry scientists. Second, there is a sorting by higher taste for nonmonetary returns into academia over industry. The evolution of an earnings profile is consistent with these sorting patterns: The earnings trajectories of basic and applied scientists are distinct from each other in academia but are similar in industry. The insight for management: There is a natural sorting by individual preference into theoretical and applied sciences and into industry and academia that drives earnings trajectories.

**Competitive Price-Matching Guarantees:
Equilibrium Analysis of the Availability Verification
Clause Under Demand Uncertainty** (p. 971)

Arcan Nalca, Tamer Boyaci, Saibal Ray,

Many advertisers claim, “No lower prices, anywhere!” But what value is the claim if the shopper has the onus of proving the claim wrong? Price-matching guarantees involve a retailer matching the lower price of a competitor for an identical product. In reality, retailers often make such guarantees contingent on the verification of product availability at the competitor’s location and decline a price-match request if

the product is not available there. This creates certain consternation on the part of customers. The authors show that availability contingency clauses intensify inventory competition between retailers and reinstitute price competition, which is otherwise eliminated by unconditional price-matching guarantees. Consequently, despite what customers may think about the availability verification, it actually makes them better off. On the other hand, such a clause reduces profits and, hence, is not an ideal strategy for retailers. The insight for management: Availability contingency clauses on price guarantees sound like a safeguard for retailers, but, in fact, they reduce prices and increase inventory availability competition, making retailers worse off and consumers better off.

**Mechanism Design for Capacity Planning Under
Dynamic Evolutions of Asymmetric Demand
Forecasts** (p. 987)

Sechan Oh, Özalp Özer

Should a supplier build its capacity to meet manufacturer forecasts? Forecast information sharing has been touted as a great value toward increasing the efficiency of supply chains. But these forecasts must be accurate and unbiased to be useful. The authors consider a supplier’s problem of eliciting credible forecast information from a manufacturer. The supplier uses demand information to better plan for a capacity investment decision. When the supplier postpones building capacity and screening the manufacturer’s private information, the supplier and the manufacturer can obtain more information and update their forecasts. This delay, however, may increase the degree of information asymmetry between the two firms, resulting in a higher cost of screening. The capacity building cost may also increase because of a tighter deadline for building capacity. The insight for management: This paper shows the supplier (i) when to stop obtaining new demand information and build capacity, (ii) whether to offer a screening contract to credibly elicit private forecast information or to determine the capacity level without information sharing, (iii) how much capacity to build, and (iv) how to design the overall mechanism so that both firms benefit from this mechanism.