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Management Insights

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Information Acquisition During Online Decision Making: A Model-Based Exploration Using Eye-Tracking Data (p. 1009)
Savannah Wei Shi, Michel Wedel, F. G. M. (Rik) Pieters

What you see is what you get: How does eye movement during browsing affect consumer buying? The authors examine eye-tracking data to investigate how consumers gather product and attribute information from moment to moment. They seek to understand information acquisition patterns on product attributes such as can be found on comparison websites. The authors follow eye movement, infer information acquisition, and finally observe and predict shopper switching strategy. The authors show that consumers switch frequently between acquisition strategies, and they obtain information on only two or three attributes or products in a particular acquisition strategy before switching. The insight for management: The eyes have it! Website design and online retailing strategies should consider the ocular tendencies of its customers to be more effective.

On Hospice Operations Under Medicare Reimbursement Policies (p. 1027)
Barış Ata, Bradley L. Killaly, Tava Lennon Olsen, Rodney P. Parker

How does the U.S. Medicare hospice reimbursement policy affect patient care and hospice finances? The existing policy consists of a daily payment for each patient under care with a global cap of revenues accrued during the Medicare year, which increases with each newly admitted patient. The authors provide reasons for a recent spate of provider bankruptcies related to the reimbursement policy and give recommendations to alleviate these problems. They find several unintended consequences of the Medicare reimbursement policy on a hospice's incentives for patient management. For example, a hospice may seek short-lived patients (such as cancer patients) over patients with longer expected lengths of stay. The policy also affects the effort with which hospices seek out, or recruit, such patients at different points in the year. Finally, the effort they apply to actively discharge a patient whose condition has stabilized may also depend on the time of year. The insight for management: Unintended and undesirable behaviors are a direct consequence of the current U.S. Medicare reimbursement policy.

The Impact of Corporate Social Responsibility on Firm Value: The Role of Customer Awareness (p. 1045)
Henri Servaes, Ane Tamayo

Be aware! Customer awareness could promote corporate social responsibility (CSR). The authors find that high customer awareness, as approximated by advertising expenditures, contributes to CSR, as well as to increased corporate valuations. For firms with low customer awareness, the relation is either negative or insignificant. The authors also find that the effect of awareness on the CSR–value relation is reversed for firms with a poor prior reputation as corporate citizens. The insight for management: If you've got it, flaunt it; advertising can improve CSR and firm valuation.

The Stock Selection and Performance of Buy-Side Analysts (p. 1062)
Boris Groysberg, Paul Healy, George Serafeim, Devin Shanthikumar

Buy! Sell! Does it make a difference? Most research on equity analysts focuses on those employed by sell-side investment banks and brokerage houses. Yet investment firms undertake their own buy-side

research, and their analysts face different stock selection and recommendation incentives than their sell-side peers. The authors examine the selection and performance of stocks recommended by analysts at a large investment firm relative to those of sell-side analysts from mid-1997 to 2004. They find that the buy-side firm's analysts issue less optimistic recommendations for stocks with larger market capitalizations and lower return volatility than their sell-side peers, consistent with their facing fewer conflicts of interest and having a preference for liquid stocks. The authors find that annualized buy-side strong buy/buy recommendations underperform those for sell-side peers from 3.8% to 5.9%. They note, however, that these findings are driven by differences in the stocks recommended and their market capitalization. The insight for management: Despite what might be expected, there is little difference in the performance of the buy- and sell-side analysts' strong buy/buy recommendations.

Investor Sentiment, Disagreement, and the Breadth–Return Relationship (p. 1076)
Ling Cen, Hai Lu, Liyan Yang

What can we learn about the future returns of a stock when we observe many investors buying in and out of it? It has been hypothesized that a stock's ownership breadth (i.e., the percentage of investors with long positions) both positively and negatively predicts its future returns. On one hand, a higher percentage of investors with long positions implies weaker short-sales constraints and a lower degree of stock overvaluation; therefore, greater ownership breadth predicts higher future returns. On the other hand, just the opposite may be true. When investor sentiment plays a major role in the financial market, such as in the Internet bubble, overly optimistic investors rush into a stock in a mania that leads to a high breadth of ownership. Or, in the subprime crisis, overly pessimistic investors sell a stock in a panic that leads to a low breadth of ownership. In these cases, a high level of ownership breadth is likely to be overvalued. These observations seem to suggest that ownership breadth negatively predicts future returns. The authors examine two offsetting forces—disagreement and sentiment—to resolve this contradiction. They find that the breadth–return relationship is positive when the sentiment effect is small. However, the relationship becomes negative when the variation of market-wide sentiment is high and cross-sectional dispersion of firm-specific exposure to market-wide sentiment variation is large. The insight for management: Buying volumes can be good or bad indicators of future returns; there is high potential when disagreement among investors is high, and one should be wary when everyone seems to think it's a sure thing.

Managing Licensing in a Market for Technology (p. 1092)
Ashish Arora, Andrea Fosfuri, Thomas Rønde

Should licensing of IT be centralized? Many firms, such as IBM, Texas Instruments, Hitachi, Dow, Kodak, Eli Lilly, and Procter & Gamble, have embraced a policy of actively licensing their intellectual property (IP) to others, earning millions of dollars in licensing revenues. In these companies, IP managers have pressures to increase direct income from IP, but individual business units in such companies might be reluctant to sell their IP for fear of losing a competitive advantage. As a result, lucrative deals are not consummated. Certainly, the business unit has superior information about licensing opportunities but may not have the appropriate incentives because its rewards depend on product market performance. The authors find that, although centralization results in less information, centralized licensing deals are larger. The insight for management: Understanding and managing complex incentive and information structures in technology organizations is critical to managing IP successfully.

Control of Dividends, Capital Subscriptions, and Physical Inventories (p. 1107)
Lode Li, Martin Shubik, Matthew J. Sobel

How closely should finance departments and operations departments work together? Manufacturers manage interrelated flows of material and cash. Material needs capital, and sales contribute cash. Therefore, it may be beneficial to coordinate operational and financial decisions. The authors study a firm making inventory and financial decisions in the presence of demand uncertainty, financial constraints, and a risk of default. The firm strives to maximize the expected present value of dividends of capital subscriptions. It turns out that the optimal policy is myopic and can be characterized with simple formulas in most cases. The insight for management: The methods of inventory theory are useful in analyzing models of operational and financial coordination.

Optimal Workflow Decisions for Investigators in Systems with Interruptions (p. 1125)
Gregory Dobson, Tolga Tezcan, Vera Tilson

Who's next? In emergency rooms, law offices, insurance companies, and banks, we see a common service model. An "investigator" (nurse, lawyer, insurance agent) acts as the customer interface for information collection and dissemination, and a second "back

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office" resource (such as lab technician, paralegal, or analyst) provides the investigator with analysis and data collection. The investigator must decide in what order work will be done by the back office and must prioritize either seeing a new customer or completing the work with a customer already in the system. While serving one customer, the investigator may be interrupted by requests from the other customers in the system. The authors characterize the impact of the investigator's choices on system throughput, occupancy, and service time. They show that, when interruptions are not an issue, the investigator should prioritize new customers to maximize throughput, keeping the system as full as possible. If customers who have been in the system for a long time generate interruptions and thus additional work for the investigator, it is optimal for the investigator to keep the system occupancy low and prioritize discharging customers. The insight for management: In common service processes, maximize work in process if interruptions are low, and reduce work in process through focusing on discharging customers.

The Evolving Impact of Combinatorial Opportunities and Exhaustion on Innovation by Business Groups as Market Development Increases: The Case of Taiwan (p. 1142)
Ishtiaq Mahmood, Chi-Nien Chung, Will Mitchell

Do high density and exposure enhance or curtail innovation? Business groups are key sources of innovation in emerging market economies, but we understand little about why innovativeness differs across groups and over time. Variation in the density of intragroup buyer–supplier ties, which are common structural linkages among group affiliates, can help explain both cross-sectional and temporal heterogeneity of group innovativeness. The authors argue that greater buyer–supplier density within a group initially creates opportunities that contribute to group innovativeness but ultimately generates exhaustion that constrains innovation. Combinatorial exhaustion will set in at lower levels of density as the market environment becomes more developed because the opportunity costs of local search increase. The insight for management: There is a dynamic element to business-group innovation; in early stages density is a boon, but in later stages it is a bane.

Consumer Heterogeneity, Product Quality, and Distribution Channels (p. 1162)
Hongyan Shi, Yunchuan Liu, Nicholas C. Petruzzi

Different supply chains for different folks? Under some conditions, when consumers vary on willingness to pay or on transaction costs, a manufacturer may provide the same or lower product quality in a decentralized channel than in a centralized channel. But in others the manufacturer may provide higher product quality in a decentralized channel than in a centralized channel. The findings depend on the distribution of the preferences of the consumer. Additionally, competition at the retail level may amplify these findings. The insight for management: The effect of different distribution channel structures on product quality depends on the type of consumer heterogeneity in a market.

Revenue Sharing in Airline Alliances (p. 1177)
Xing Hu, René Caldentey, Gustavo Vulcano

How should airlines in a marketing alliance split revenues? Code-sharing alliances have grown in importance in the airline industry. What is the best structure for these alliances? First, airlines negotiate fixed proration rates to share the revenues generated by shared itineraries, then each airline operates independent inventory control systems to maximize their own expected revenues. The authors create a revenue-sharing rule that no airline coalition has incentive to secede from the grand alliance. The rule is also efficient for the second stage, in the sense that the decentralized system can achieve the same revenues as a central planner managing the global alliance network. The authors demonstrate that the proposed proration rates can lead to a significant increase in revenues with respect to other rules commonly used in practice. The authors also introduce a simple alternative rule that is based strictly on public information. The insight for management: A proposed revenue-sharing rule for airline alliances could create improved cooperation and greater revenue generation.

Facilitating Fit Revelation in the Competitive Market (p. 1196)
Zheyin (Jane) Gu, Ying Xie

Can a firm help a consumer know if they will like a product before they try it? A firm can choose to engage in marketing activities to assist consumers in finding the fit between their personal tastes and the products' attributes. The authors find that competitive firms' strategies to facilitate fit revelation critically depend on the product qualities that they offer. In particular, a firm offering a high-quality product is more likely to facilitate fit revelation in the competitive market than it would as a market monopolist, whereas a firm offering a low-quality product is less likely to do so. The insight for management: Individualized product "fit" advertising is more appropriate for suppliers of a high-quality product.

Multistage Capital Budgeting for Shared Investments (p. 1213)
Nicole Bastian Johnson, Thomas Pfeiffer, Georg Schneider

In a two-stage capital budgeting decision, how should investment decisions be made where multiple divisions can initiate profitable projects if the firm acquires a shared asset at the first stage? The authors show that the optimal capital budgeting mechanism entails a capital charge rate above the firm's cost of capital in the first stage but below the cost of capital in the second stage. Furthermore, the first-stage asset cost-sharing rule depends only on the relative divisional growth profiles, and equal cost sharing can be optimal even when the divisions receive significantly different benefits from the shared investment project. To ensure appropriate incentives and behaviors of all divisions, the central decision maker should focus on the second-stage costs. The insight for management: Structuring investment decisions and incentives carefully is critical for efficient capital allocation.

Dynamics of Contract Design with Screening (p. 1229)
Jakša Cvitanić, Xuhu Wan, Huali Yang

Is this the right person for the job? The authors evaluate ways to reduce contracting risks through better contract design and screening. Contracts are usually multiperiod, thus made with future uncertainty. Inherent risks of such contracts, including moral hazard (slacking off after the contract is signed) and adverse selection (taking a contract because it is the best a contractor can do), make the contract design and screening process critical to successful contracting. A "bad agent" (one with whom a contract should not be signed) has the temptation to misreport capabilities at the time of signing based on the value of the contract. That same value can be used to attract and motivate "good agents" to sign. The insight for management: Careful use of screening contracts and shutdown contracts can attract the good agents and deter the bad ones, improving contracting success.

Newsvendor Demand Chasing Revisited (p. 1245)
Nelson Lau, J. Neil Bearden

Does a big order today imply a big order tomorrow? Existing research suggests that individuals think that it does, which results in "demand chasing," or the adjustment of order quantities toward prior demand. The authors show this might not be the case, finding through simulation that a simple correlation measure can more accurately describe ordering processes' relation to demand without falsely identifying some orders as "demand chasing." The insight for management: A proposed measure of ordering and demand correlation better characterizes purchasing behaviors as they relate to demand patterns.

Revisiting Almost Second-Degree Stochastic Dominance (p. 1250)
Larry Y. Tzeng, Rachel J. Huang, Pai-Ta Shih

What do we know about preferences of decision makers? The authors provide a counterexample to a prior theory related to revealed preferences of decision makers. The insight for management: New approaches give improved understanding of the preferences of decision makers.