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## Management Insights

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# Management Insights

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## License to Cheat: Voluntary Regulation and Ethical Behavior (p. 2187)

[Francesca Gino](#), [Erin L. Krupka](#), [Roberto A. Weber](#)

Does the option for regulatory oversight change behavior? Although monitoring and regulation can be used to combat socially costly unethical conduct, their intended targets can often avoid regulation or hide their behavior. This surrenders at least part of the effectiveness of regulatory policies to firms' and individuals' decisions to voluntarily submit to regulation. The authors study individuals' decisions to avoid monitoring or regulation and thus enhance their ability to engage in unethical conduct. They conduct a laboratory experiment in which participants engage in a competitive task and can decide between having the opportunity to misreport their performance and having their performance verified by an external monitor. To study the effect of social factors on the willingness to be subject to monitoring, the authors vary whether participants make this decision simultaneously with others or sequentially, as well as whether the decision is private or public. The insight for management: The opportunity to avoid being submitted to regulation produces more unethical conduct than situations in which regulation is either exogenously imposed or entirely absent.

## Do Job Seekers Benefit from Contacts? A Direct Test with Contemporaneous Searches (p. 2204)

[Elena Obukhova](#), [George Lan](#)

Do job seekers benefit from contacts? Although it is intuitively plausible that a job seeker benefits by using contacts in her job search, researchers have been plagued by theoretical disagreements and inconclusive empirical evidence. Single-firm studies consistently find that job seekers applying through referrals achieve better labor-market outcomes than job seekers applying without referrals, but the evidence from job-seeker studies is mixed. To solve this puzzle, the authors clarify the distinction between having social capital and using contacts as a search method. They examine the school-to-work transition of 291 university graduates who engaged in 3,112 contemporaneous job searches in their study. The insight for management: Although a job seeker's social capital may not

affect whether or not she uses contacts to search for a job, using contacts as a job-search method does improve her job-search outcomes.

## The Impact of New Product Introduction on Plant Productivity in the North American Automotive Industry (p. 2217)

[Anandasivam Gopal](#), [Manu Goyal](#), [Serguei Netessine](#), [Matthew Reindorp](#)

How does a new product launch affect plant productivity? Product launch—an event when a new product debuts for production in a plant—is an important phase in product development. But launches disrupt manufacturing operations, resulting in productivity losses. Using data from North American automotive plants from years 1999–2007, the authors estimate that a product launch entails an average productivity loss of 12%–15% at the plant level, which translates to a monetary loss of \$42–\$53 million per launch in lost productivity. The authors identify several ways to mitigate the decrease in productivity. They suggest that product (or mix) flexibility in the body shop is critical for reducing the productivity loss. Also, a plant's past experiences with product launches as well as with manufacturing similar products (specifically, on the same platform as the launch product) temper the productivity losses even further. Nevertheless, there are subtle differences in the accrued learning with these two types of experiences: Whereas the positive impact of platform experience persists over time, the learning accrued with launching other products in the same plant decays more quickly. The insight for management: Launching products at a flexible plant with appropriate platform experience could recover approximately \$31 million per launch in lost productivity.

## “Nursevendor Problem”: Personnel Staffing in the Presence of Endogenous Absenteeism (p. 2237)

[Linda V. Green](#), [Sergei Savin](#), [Nicos Savva](#)

How many nurses should be scheduled on a given day? The problem of determining nurse staffing levels in a hospital environment is a complex task because of variable patient census levels and uncertain service capacity caused by nurse absenteeism. The authors

combine an empirical investigation of the factors affecting nurse absenteeism rates with an analytical treatment of nurse staffing decisions. Using data from the emergency department of a large urban hospital, they find that absenteeism rates are consistent with nurses exhibiting an aversion to higher levels of anticipated workload. The authors provide characterizations of the optimal staffing levels in both situations and show that the failure to incorporate absenteeism as an endogenous effect results in understaffing. The insight for management: Understaffing creates absenteeism and worsens service levels; the optimal staffing levels should consider the reaction of staff who may not report to work when anticipated workloads are high.

### **Organizational Decision Making: An Information Aggregation View** (p. 2257)

Felipe A. Csaszar, J. P. Eggers

How does the method of decision making affect outcomes? The authors study four information aggregation structures commonly used by organizations to evaluate opportunities: individual decision making, delegation to experts, majority voting, and averaging of opinions. They investigate how the performance of each of these structures is contingent upon the breadth of knowledge within the firm and changes in the environment. They explore when delegation is preferable to other structures, such as voting and averaging. They show that that delegation is the most effective structure when there is diversity of expertise, when accurate delegation is possible, and when there is a good fit between the firm's knowledge and the knowledge required by the environment. Otherwise, depending on the knowledge breadth of the firm, voting or averaging may be the most effective structure. Finally, they use their model to shed light on which structures are more robust to radical environmental change and when crowd-based decision making may outperform delegation. The insight for management: How a decision should be made depends on critical attributes of the organization and problem type.

### **No-Arbitrage Taylor Rules with Switching Regimes** (p. 2278)

Haitao Li, Tao Li, Cindy Yu

Is the Federal Reserve pro-growth or anti-inflation? The authors study the time-varying nature of U.S. monetary policies. They find that the Fed is proactive in controlling inflation in one regime and accommodative for growth in another. Moreover, proactive monetary policies are associated with more stable inflation and output gap and therefore could have contributed to the Great Moderation. The authors also highlight the importance of switching regimes for term structure modeling. Without the regimes, inflation and output can explain less than 50% of the variations of bond

yields. With the regimes, the two variables can explain more than 80% of the variations of bond yields. The insight for management: The Fed can be either pro-growth or anti-inflation; in order to understand Fed behavior, it is critical to account for regime changes.

### **Coinsurance Within Business Groups: Evidence from Related Party Transactions in an Emerging Market** (p. 2295)

Nan Jia, Jing Shi, Yongxiang Wang

How do trading partners coinsure to improve performance? Using novel transaction-level data on Chinese business groups, the authors provide direct evidence of the coinsurance theory of business groups by investigating when different types of internal resources are transferred within a business group. The authors find that in Chinese business groups, a credit crunch experienced by the controlling shareholding firm (the "controller") of a publicly listed firm increases the loan-based related party transactions (RPTs) including loan guarantees and intercorporate loans provided by the listed firm to the controller. In turn, when the listed firm's performance dips, the controller and its supporting firms provide more support to the listed firm in the form of non-loan-based RPTs. The insight for management: Business groups support each other in order to ensure the successful continuation of the group.

### **Ad Revenue and Content Commercialization: Evidence from Blogs** (p. 2314)

Monic Sun, Feng Zhu

How is ad content affected by contract terms? When incentivized by ad revenue, content providers are more likely to tailor their content to attract "eyeballs," and as a result, popular content may be excessively supplied. The authors empirically test this prediction by taking advantage of the launch of an ad-revenue-sharing program initiated by a major Chinese portal site in September 2007. Participating bloggers allowed the site to run ads on their blogs and received 50% of the revenue generated by these ads. After analyzing 4.4 million blog posts, the authors find that, relative to nonparticipants, popular content increased by approximately 13% on participants' blogs after the program took effect. Approximately 50% of this increase can be attributed to topics shifting toward three domains: the stock market, salacious content, and celebrities. Meanwhile, relative to nonparticipants, participants' content quality increased after the program took effect. The authors also find that the program effects are more pronounced for participants with moderately popular blogs and seem to persist after participants enroll in the program. The insight for management: The content and quality of ads depend directly on the contract terms of the content provider; revenue incentives increase the intensity of ads for the most popular items and improve ad quality.

**Simple Auctions for Supply Contracts** (p. 2332)  
[Izak Duenyas, Bin Hu, Damian R. Beil](#)

How do auction purchases affect supply contracts? The authors study an optimal procurement mechanism for a newsvendor-like problem where the buyer's (newsvendor's) purchase price of the supplies is not fixed but is determined through interaction with candidate suppliers. The buyer has some idea of supplier costs but does not know their costs exactly. Recent literature has shown how the buyer can implement the optimal procurement mechanism by announcing a revenue function (specifying a payment for each quantity the buyer may purchase), then auctioning off the supply contract with the specified revenue function. The authors show that a simple modified version of the standard open-descending auction for a fixed quantity is also an optimal mechanism for obtaining supplies. What distinguishes the proposed auction mechanism is its simplicity and familiarity for the suppliers—open-descending auctions are very easy to run and ubiquitous in practice, whereas auctioning supply contracts with a specified revenue function is much less observed and more difficult to explain to suppliers. The insight for management: Simple and common auction methods can achieve optimal supply contracts.

**Credit Risk Spillovers Among Financial Institutions Around the Global Credit Crisis: Firm-Level Evidence** (p. 2343)  
[Jian Yang, Yinggang Zhou](#)

How can credit risk be assessed across networks of credit institutions? Using credit default swap data, the authors propose a novel empirical framework to identify the structure of credit risk networks across international major financial institutions around the recent global credit crisis. Specifically, they identify three groups of players, including prime senders, exchange centers, and prime receivers of credit risk information. Leverage ratios and, particularly, the short-term debt ratio appear to be significant determinants of the roles of financial institutions in credit risk transfer, whereas corporate governance indexes, size, liquidity, and asset write-downs are not significant. The insight for management: New research carries important implications for a new regulatory standard on capital subcharge and liquidity coverage ratio.

**Media, Aggregators, and the Link Economy: Strategic Hyperlink Formation in Content Networks** (p. 2360)  
[Chrysanthos Dellarocas, Zsolt Katona, William Rand](#)

To link or not to link? A defining property of the World Wide Web is a content site's ability to place virtually costless hyperlinks to third-party content as a substitute for or complement to its own content. Costless

hyperlinking has enabled new types of players, usually referred to as content aggregators, to successfully enter content ecosystems, attracting traffic and revenue by hosting links to the content of others. This, in turn, has sparked a debate between content creators and aggregators regarding the legitimacy and costs/benefits of uninhibited free linking. The authors model the complex interplay between content and links in settings where sites compete for traffic. The authors attempt to distill how hyperlinking affects the (a) incentives of content nodes to produce high-quality content versus to link to third-party content, (b) profits of the various stakeholders, (c) average quality of content that becomes available to consumers, and (d) impact of content aggregators. The insight for management: The link economy has both benefits and drawbacks for content creators and consumers.

**Tempus Fugit: Time Pressure in Risky Decisions** (p. 2380)[Martin G. Kocher, Julius Pahlke, Stefan T. Trautmann](#)

Does haste make waste? The authors study the effects of time pressure on risky decisions for pure gain opportunities, pure loss opportunities, and mixed opportunities involving both gains and losses. They find that time pressure has no effect on risk attitudes for gains but increases risk aversion for losses. For mixed opportunities, subjects become simultaneously more loss averse and more gain seeking under time pressure, depending on the framing of the opportunities. The results suggest the importance of aspiration levels, and thus the overall probability to break even, under time pressure. The insight for management: Time pressure creates risk aversion for decisions surrounding losses.

**Investors' Heterogeneity and Implied Volatility Smiles** (p. 2392)[Tao Li](#)

How is stock variability affected by differences among investors? Heterogeneity in beliefs and time preferences among investors make stock volatility stochastic, even though the volatility of the underlying dividend is constant. The Black–Scholes implied volatility surface, which depends on wealth distribution, investors' beliefs, and time preferences, exhibits observed patterns that are widely documented in various options markets. The author tests a model against weekly S&P 500 index options from January 1996 to April 2006. The model shows comparable performance to the stochastic volatility and jump model and outperforms the traders' rules and two no-arbitrage models (stochastic volatility, and stochastic volatility and stochastic interest rate) in terms of out-of-sample pricing errors. The insight for management: New modeling approaches capture the effect of shareholder differences on the volatility of stock option prices.