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Management Insights

Michael F. Gorman

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Management Insights

Michael F. Gorman

School of Business Administration, University of Dayton, Dayton, Ohio 45469,
michael.gorman@udayton.edu

Broadband in School: Impact on Student Performance (p. 265)

[Rodrigo Belo](#), [Pedro Ferreira](#), [Rahul Telang](#)

What are the effects of providing broadband to schools on students' performance? The authors use a rich panel of data on broadband use and students' grades from all middle schools in Portugal. The authors show that high levels of broadband use in schools were detrimental to scores on the ninth-grade national exams in Portugal. For the average broadband use in schools, scores fell 0.78 of a standard deviation from 2005 to 2009. The authors also show that broadband has a negative impact on exam scores regardless of gender, subject, or school quality and that the way schools allow students to use the Internet affects their performance. In particular, students in schools that block access to websites such as YouTube perform relatively better. The insight for management: More is not always better; Internet access can be a detriment to student achievement if not well managed.

Holding the Hunger Games Hostage at the Gym: An Evaluation of Temptation Bundling (p. 283)

[Katherine L. Milkman](#), [Julia A. Minson](#),
[Kevin G. M. Volpp](#)

Imagine allowing yourself to enjoy the next episode of your favorite TV show only while exercising. Would you exercise more? The authors evaluate the effectiveness of temptation bundling—a method for simultaneously tackling two types of self-control problems by harnessing consumption complementarities. They conduct a field experiment measuring the impact of bundling instantly gratifying but guilt-inducing “want” experiences (enjoying page-turner audiobooks) with valuable “should” behaviors providing delayed rewards (exercising). They explore whether such bundles increase “should” behaviors and whether people would pay to create these bundles. Each participant was randomly assigned to one of three groups: one with gym-only access to tempting audio novels, one involving encouragement to restrict audiobook enjoyment to the gym, and one with a traditional gym membership. Initially, “gym-only” access and “gym-encouraged” participants visited the

gym 51% and 29% more frequently, respectively, than a traditional membership, but that effect declined over time (particularly after Thanksgiving). After the study, 61% of participants opted to pay to have gym-only access to iPods containing tempting audiobooks, suggesting demand for this commitment device. The insight for management: Bundling desirable behaviors with “want” experiences can result in an increase in those behaviors.

Investor Flows and the 2008 Boom/Bust in Oil Prices (p. 300)

[Kenneth J. Singleton](#)

Does investor speculation lead to boom/bust behavior in markets? The dramatic rise and subsequent drop in crude oil prices in 2008 has been a catalyst for debate surrounding the role of speculation in market volatility. The author explores the impact of investor flows and financial market conditions on returns in crude oil futures markets. He argues that informational frictions and the associated speculative activity may induce prices to drift away from “fundamental” values and may result in price booms and busts. He gives particular attention to the interplay between imperfect information about real economic activity, including supply, demand, and inventory accumulation, and speculative activity in oil markets. He finds that the largest impacts on futures prices were from intermediate-term growth rates of index positions and managed-money spread positions. Furthermore, he suggests that these effects were through risk or informational channels distinct from changes in convenience yield. The insight for management: Hedge fund trading in spread positions in futures impacted the shape of term structure of oil futures prices.

Governance and CEO Turnover: Do Something or Do the Right Thing? (p. 319)

[Raymond J. Fisman](#), [Rakesh Khurana](#),
[Matthew Rhodes-Kropf](#), [Soojin Yim](#)

How does corporate governance affect firm value through the decision of whether to fire or retain the CEO? Weak governance, which prevents shareholders from controlling the board, protects inferior CEOs from dismissal. On the other hand, weak governance insulates the board from pressures by

biased or uninformed shareholders who might otherwise want to remove a CEO. Whether stronger governance improves retain/replace decisions depends on which of these effects dominates. The authors assess the effect of governance on the quality of firing and hiring decisions using data on the CEO dismissals of large U.S. corporations between 1994 and 2007. The insight for management: There is a beneficial effect of weak governance on CEO dismissal decisions, suggesting that insulation from shareholder pressure may allow for better long-term decision making.

Job Hopping, Information Technology Spillovers, and Productivity Growth (p. 338)

[Prasanna Tambe, Lorin M. Hitt](#)

How does mobility affect productivity? The movement of information technology (IT) workers among firms is believed to be an important mechanism by which IT-related innovations diffuse throughout the economy. The authors use a newly developed source of employee microdata—an online resume database—to model IT workers' mobility patterns. They find that firms derive significant productivity benefits from the IT investments of other firms from which they hire IT labor. Their estimates indicate that over the last two decades, productivity spillovers from the IT investments of other firms transmitted through this channel have contributed 20%–30% as much to productivity growth as firms' own IT investments. Moreover, they find that the productivity benefits of locating near other IT-intensive firms can primarily be explained by the mobility of technical workers within the region. The insight for management: Although turnover is expensive, it provides productivity boost from technology spillover.

Horizontal Mergers in Multitier Decentralized Supply Chains (p. 356)

[Soo-Haeng Cho](#)

How do mergers and acquisitions affect the consumer price and performance of supply chains? Well-known economic theory predicts that consumer price will fall after a horizontal merger when the amount of marginal cost reduction from operating synergies exceeds the premerger markup of a merging firm. However, when a horizontal merger occurs in a multitier decentralized supply chain where a finite number of firms compete at each tier, the author shows that this result holds only when a merger occurs at the tier that acts as the leader in the supply chain. In this supply chain, a horizontal merger at any other tier will decrease consumer price when the cost reduction exceeds a certain threshold that is larger than the premerger markup. Moreover, this threshold is increasing as the supply chain gets longer and can be substantially larger than the premerger markup. The insight for management: Contrary to a common belief, a larger synergy from a merger does not necessarily benefit consumers more.

How Do Industry Peers Respond to Control Threats? (p. 380)

[Henri Servaes, Ane Tamayo](#)

How do industry peers respond to control threats? The authors examine how industry peers respond when another firm in the industry is the subject of a hostile takeover attempt. They find that industry peers cut their capital spending, free cash flows, and cash holdings, and increase their leverage and payouts to shareholders. They also adopt more takeover defenses. The stock price reaction upon announcement of the takeover is positive and larger for peer firms with higher capital spending and higher free cash flows. Before the takeover attempt, the peer firms borrow less and invest more than predicted. Both stock returns and performance improve after the takeover attempt. The insight for management: A takeover threat has important spillover effects for the other firms in the industry.

Turn-and-Earn Incentives with a Product Line (p. 400)

[Dinah A. Cohen-Vernik, Devavrat Purohit](#)

How are products allocated among retailers in times of shortage? When manufacturers do not have sufficient capacity to meet demand and cannot increase prices, they have to determine other methods to allocate goods among retailers. A common allocation mechanism is based on a retailer's sales history: A retailer that has ordered larger quantities in the past should get a greater allocation than a retailer that has historically ordered smaller quantities. This mechanism, known as a turn-and-earn allocation rule, is commonly used in many industries such as automobiles, microprocessors, video game consoles, etc. However, when a variety of related products are considered, it is not clear whether the manufacturer is better off basing its allocation on the sales history of the entire product line or solely on the sales history of the product in short supply. In particular, a shortage of one product can lead retailers and consumers to move toward other products in the line. This, in turn, can have an effect on the manufacturer's optimal allocation mechanism. The authors introduce a general turn-and-earn allocation rule that allows the entire sales history to influence allocation levels. The insight for management: Certain turn-and-earn rules not only help the manufacturer but can also help the retailer and increase total supply chain profits.

Managing Retention in Service Relationships (p. 415)

[Sam Aflaki, Ioana Popescu](#)

In a repeat business context, past experiences with a service provider affect customers' decisions to renew their contracts. How should a strategic firm manage customized service over time to maximize the

long-term value from each customer relationship? The authors capture the effect of past service experiences on service quality expectations, customer satisfaction, and retention. Although firms can benefit from managing service expectations at the beginning of a relationship, the authors find that varying service in the long run is not optimal. The practice of varying service levels depends to some degree on customer loss aversion; however, if satisfying experiences are more salient, then firms should constantly vary service levels. Interestingly, loyal or high-margin customers need not warrant better service; those who anchor less on past service experiences do—provided that retention is improved by better past experiences. The effect of customer memory on service levels is determined by whether habituation or goodwill drives defection decisions. The insight for management: Specific service relationship strategies can be devised for specific customers to maximize retention.

Gender Differences in Willingness to Guess (p. 434)

[Katherine Baldiga](#)

Are women less willing than men to guess on multiple-choice tests? The author devises a test consisting of practice questions from SAT II history tests and varies whether a penalty is imposed for a wrong answer and the salience of the evaluative nature of the task. She finds that, when no penalty is assessed for a wrong answer, all test takers answer every question. But when there is a penalty for wrong answers, women answer significantly fewer questions than men. The author notes no differences in knowledge of the material or confidence in the test takers. Differences in risk preferences explain less than half of the observed gap. Holding knowledge of the material constant, test takers who skip questions do significantly worse on the test. The insight for management: Gender differences are exhibited in willingness to guess when penalties are present; women guess less and, as a result, may score lower on tests.

Supplier Encroachment Under Asymmetric Information (p. 449)

[Zhuoxin Li, Stephen M. Gilbert, Guoming Lai](#)

How does a supplier's direct channel, such as via catalog or online, affect markets? Previous research has shown that supplier encroachment into a reseller's market can mitigate double marginalization and benefit both the supplier and the reseller. The authors extend the investigation of supplier encroachment to the environment where the reseller might be better informed than the supplier. They find that the launch of the supplier's direct channel can result in costly signaling behavior on the part of the reseller, in which he reduces his order quantity when the market size is small. Such a downward order distortion can amplify double marginalization. As a result, in addition to the

"win-win" and "win-lose" outcomes for the supplier and the reseller, supplier encroachment can also lead to "lose-lose" and "lose-win" outcomes. The insight for management: Information management strategies and market size directly affect the desirability of a supplier's direct channel.

Trimmed Opinion Pools and the Crowd's Calibration Problem (p. 463)

[Victor Richmond R. Jose, Yael Grushka-Cockayne, Kenneth C. Lichtendahl Jr.](#)

How can the accuracy of opinion-based probability forecasts be improved? A problem with using traditional opinion pools is that they can be poorly calibrated, tending toward underconfidence as the crowd's diversity increases. The authors propose the "exterior-trimmed" opinion pool, in which the outliers are ignored, which decreases the pool's variance and improves its calibration. On the other hand, a linear opinion pool will remain overconfident when individuals are overconfident and not very diverse. For these situations, the authors suggest "interior trimming" of forecasts with moderate means to reduce overconfidence. The insight for management: Disregarding some poll information can reduce bias and improve accuracy.

Responses to Entry in Multi-Sided Markets: The Impact of Craigslist on Local Newspapers (p. 476)

[Robert Seamans, Feng Zhu](#)

How did the advent of Craigslist affect local newspapers? The authors suggest that local papers are affected in more ways than one. They find that newspapers with greater reliance on classified-ad revenue experience a larger drop in classified-ad rates after Craigslist's entry. Furthermore, the impact of Craigslist's entry on the classified-ad side appears to extend to other areas of the newspapers' market. On the subscriber side, these newspapers experience an increase in subscription prices, a decrease in circulation, and an increase in differentiation from each other. On the display-ad side, affected newspapers experience a decrease in display-ad rates. Finally, the authors find evidence that affected newspapers are less likely to make their content available online. They estimate that Craigslist's entry leads to \$5.0 billion (in year 2000 dollars) in savings to classified-ad buyers during 2000–2007. The insight for management: In addition to its direct effect on newspaper ad revenue, Craigslist affects content distribution and subscription prices as well.

The Strategic Value of High-Cost Customers (p. 494)

[Upender Subramanian, Jagmohan S. Raju, Z. John Zhang](#)

How can high-cost, low-profit customers be beneficial to a company's customer portfolio? Many firms

today manage their existing customers differently based on profit potential, providing fewer incentives to less profitable customers and firing unprofitable customers. Although researchers and industry experts advocate this practice, results have been mixed. The authors examine this practice, explicitly accounting for competition, and find that some conventional prescriptions may not always hold. They analyze a setting where customers differ in their cost to serve, and they find that, when a firm can discriminate among its customers but the rival cannot, customer base composition influences the rival's poaching behavior. Consequently, even though a low-cost customer is more profitable when viewed in isolation, a high-cost customer may be strategically more valuable by discouraging poaching. Therefore, contrary to conventional advice, it can be profitable for a firm to retain unprofitable customers. Moreover, some customers may become more valuable to retain and receive better incentives when they are less profitable. The authors further show that, in competitive settings, traditional customer lifetime value metrics may lead to poor retention decisions because they do not account for the competitive externality that actions toward some customers impose on the cash flows from other customers. The insight for management: Firms may need to evolve from a segmentation mindset, which views each customer in isolation, to a customer portfolio mindset, which recognizes that the value of different customers is interlinked.

Financial Product Differentiation over the State Space in the Mutual Fund Industry (p. 508)
[Shujing Li, Jiaping Qiu](#)

Are mutual fund fees affected by the fund's risk and return? By being distinctive from other funds, mutual funds yield distinct returns and become better-performing funds in different market situations; this enables mutual funds to obtain stochas-

tic market power and charge higher fees than they could otherwise. This strategy fundamentally differs from the conventional market segmentation strategy that targets investors with heterogeneous preferences. The authors study this novel form of financial product differentiation and find that the return attributable to risk factor loadings has a significant impact on a fund's market share. The insight for management: Fund fees are related to the positions of their factor loadings in the industry, and funds with more extreme risk factor loadings charge higher fees.

Forward-Looking Market Risk Premium (p. 521)
[Jin-Chuan Duan, Weiqi Zhang](#)

How can forward-looking market risk premium be practically computed? The authors derive a theoretical expression that links forward-looking risk premium to investors' risk aversion and forward-looking volatility, skewness, and kurtosis of cumulative return. In addition, investors' risk aversion is theoretically linked to volatility spread, defined as the gap between the risk-neutral volatility deduced from option data and the physical return volatility exhibited by return data. The volatility spread formula serves as the basis for using the generalized method of moments to estimate investors' risk aversion. The authors estimate monthly forward-looking risk premiums over the sample period of 2001–2010 and find them all to be positive. The authors further find that a change in forward-looking risk premiums is negatively related to the S&P 500 holding period return, reflecting that an increase in discount rate reduces current stock prices. Finally, they find that market illiquidity positively affects forward-looking risk premium, indicating that forward-looking risk premium contains an illiquidity risk premium component. The insight for management: New approaches in calculating forward-looking risk premium reveal relationships among key market measures such as discount rates, stock prices, and liquidity.