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Management Insights

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Management Insights

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Gender Interactions Within the Family Firm (p. 1083)
Mario Daniele Amore, Orsola Garofalo, Alessandro Minichilli

Do gender interactions at the top of the corporate hierarchy affect corporate performance? Based on a comprehensive data set of family-controlled firms in Italy, the authors find that female directors significantly improve the operating profitability of femaleled companies But they show that the positive effect of female interactions on profitability is reduced when the firm is located in geographic areas characterized by gender prejudices and when the firm is large. The insight for management: If gender discrimination can be avoided, female CEOs may improve the profitability of privately held firms.

Working Harder or Hardly Working? Posting Performance Eliminates Social Loafing and Promotes Social Laboring in Workgroups (p. 1098)
Robert B. Lount Jr., Steffanie L. Wilk

Does posting performance, which fosters increased social comparisons between workers, influence employees' motivation when working in groups? The authors find that when individual performance is publicly posted in the workplace, employees working in a group performed better than when working alone (i.e., social laboring); however, when individual performance was not posted, employees working in a group performed worse than when working alone (i.e., social loafing). The insight for management: Social comparisons can have positive implications for employee performance in groups.

Rewarding Volunteers: A Field Experiment (p. 1107)
Nicola Lacetera, Mario Macis, Robert Slonim

Should volunteers be paid? The authors conducted a field experiment with the American Red Cross (ARC) to study the effects of economic incentives on volunteer activities. In the experiment, the ARC offered volunteers \$5, \$10, and \$15 gift cards to give blood. As it turns out, predictably by the law of supply, volunteers were more likely to donate when paid, and even more so for the higher reward values. The incentives had different effects among participants, depending on their propensity to volunteer. It also caused volunteers to shift their activities geographically and over time as it relates to gift card offerings. But these offers did not affect overall willingness to volunteer over the long run. The insight for management: Paying volunteers may create short-term bumps in willingness and awareness to contribute with no long-term effect on overall volunteerism.

Partnership Formation: The Role of Social Status (p. 1130)
Haimanti Bhattacharya, Subhasish Dugar

Would you partner with someone who is "beneath you"? The authors experimentally test for the effect of social status on the likelihood of partnership formation. They study how the assignment of partners' status to the top, middle, or bottom position of a preexisting status hierarchy affects collaboration. They find that partnership formation is remarkably sensitive to the partners' status affiliations. The insight for management: Collaboration is easiest when both partners share the same social status, and the probability of partnership formation decreases significantly as the status gap between the potential partners increases.

Crowding Out in the Labor Market: A Prosocial Setting Is Necessary (p. 1148)
Tanjim Hossain, King King Li

How do pay and effort relate in various work settings? Generally, it is believed that higher pay creates more incentive to work resulting in higher quality and quantity of output. However, recent research has found that if volunteers are paid a small portion of the money that they collect, generally they collect less, but if they are paid a slightly higher portion, they collect the same as unpaid volunteers. It seems that payment actually reduces effort to some degree, but then higher payment offsets that reduction. The authors find that this effect is prevalent only in "prosocial" settings and that in a natural work setting, higher pay creates increased effort, as one might expect. The insight for management: The pay-for-performance rule applies in the traditional work setting but is considerably weaker in a volunteer environment.

A Bayesian Semiparametric Approach for Endogeneity and Heterogeneity in Choice Models (p. 1161)
Yang Li, Asim Ansari

How do marketing efforts by a firm affect our ability to understand consumers? Marketing variables that are included in consumer discrete choice models are often easily confused with attributes with the customers who respond to them. Attempts to address this with parametric methods have an impact on parameter estimates and associated elasticities, skewing understanding of customer preferences and reducing predictive ability. The authors describe a flexible and robust alternative to parametric methods. The authors find that parametric methods can lead to poor recovery of model parameters and price elasticities, whereas the proposed semiparametric model is able to robustly recover the true parameters in an efficient fashion. The authors apply their method to scanner data and find improved results. The insight for management: New approaches for understanding and predicting consumer behavior are being developed.

Measuring the Performance of Large-Scale Combinatorial Auctions: A Structural Estimation Approach (p. 1180)
Sang Won Kim, Marcelo Olivares, Gabriel Y. Weintraub

Do combinatorial auctions really help performance? The main advantage of a procurement combinatorial auction (CA) is that it allows suppliers to express cost synergies through package bids. However, bidders can also strategically take advantage of this flexibility by discounting package bids and "inflating" bid prices for single items, even in the absence of cost synergies; the latter behavior can hurt the performance of the auction. The authors use new statistical techniques to evaluate performance of the Chilean school meals auction, in which the government procures half a billion dollars' worth of meal services every year and bidders submit thousands of package bids. Their estimates suggest that bidders' cost synergies are economically significant in this application (~5%) and that the current CA mechanism achieves high allocative efficiency (~98%) and reasonable margins for the bidders (~5%). The insight for management: Combinatorial auctions seem to produce improved performance despite their potential drawbacks.

Managing Global Sourcing: Inventory Performance (p. 1202)
Nitish Jain, Karan Girotra, Serguei Netessine

How much inventory results from sourcing overseas? The use of global suppliers has increased considerably over the last three decades. Operations management theory establishes that global sourcing requires more units of inventory, but because these units are often procured at a lower cost from global suppliers the capital invested in inventory and the consequent financial burden may increase or decrease with global sourcing. The authors link the global sourcing practices of public U.S. firms and their inventory investments. They find that an increase in global sourcing results in an increase in inventory investment. A 10% shift in sourcing from domestic to global suppliers increases the inventory investment by 8.8% for an average firm in their sample. The authors also find that increasing the number of suppliers can mitigate this increase in inventory investment: for example, going from single to dual sourcing reduces inventory investment by about 11%. The insight for management: Global sourcing isn't free; despite low cost procurement, global supply chains in this study face increased inventory investments that offset cost savings due to larger quantity increases.

Home or Overseas? An Analysis of Sourcing Strategies Under Competition (p. 1223)
Xiaole Wu, Fuqiang Zhang

Which is better, quick or cheap? Recently, many previously off-shored production processes have been moved back to the United States. Motivated by this recent backshoring trend, the authors consider a situation where competing firms may choose between efficient sourcing (e.g., sourcing from overseas) and responsive sourcing (e.g., sourcing from a home country). Efficient sourcing usually provides a cost advantage, whereas responsive sourcing allows a firm to obtain more accurate demand information when making procurement decisions. The authors find some interesting results driven by the strategic interaction between the firms. First, a firm may still use efficient sourcing in equilibrium even when the cost advantage associated with efficient sourcing does not exist. Second, a cost hike in efficient sourcing (e.g., the rising labor cost in Asia) may benefit all of the firms in the industry. The authors also shed some light on the recent backshoring trend. First, they find that more firms will shift from efficient sourcing to responsive sourcing in equilibrium (i.e., backshore) if the market size shrinks, the demand becomes more volatile, or the sourcing costs rise simultaneously. Second, a firm's backshoring behavior reduces the competition on the cost dimension, but it also has an ambiguous informational impact on the other firms in the market. The insight for management: The backshoring behavior can be beneficial to all firms sticking to their original sourcing strategies under certain conditions.

Dynamic Pricing of Perishable Assets Under Competition (p. 1241)
Guillermo Gallego, Ming Hu

How should competing firms price perishable assets, such as airline tickets, given that their pricing can be seen and reacted to by the competition? The authors consider an oligopolistic market such as the air travel market with perishable assets, in which each firm has a fixed initial stock of items and competes in setting prices to sell them over a finite sales horizon. Customers sequentially arrive at the market, make a purchase choice, and then leave immediately with some likelihood of no purchase. The purchase likelihood depends on the time of purchase, product attributes, and current prices. The authors find that a simple structure sheds light on dynamic revenue management problems under competition, which helps capture the essence of the problems under demand uncertainty. The insight for management: Revenue management strategies should include competitive reaction to effectively set prices.

Inside Debt and the Design of Corporate Debt Contracts (p. 1260)
Divya Anantharaman, Vivian W. Fang, Guojin Gong

Does managerial holding of debt ("inside debt") align managers' incentives with those of outside debtholders? Executive pensions, consisting of rank-and-file (RAF) plans and supplemental executive retirement plans (SERPs), and other deferred compensation (ODC) have debt-like payoffs and could therefore function as inside debt. However, whereas SERPs are often unfunded and unsecured, RAF plans are funded and secured to some extent, and ODC may be invested in equity and withdrawn flexibly before retirement. Special arrangements in executive debt-like compensation could hence weaken or even nullify any incentive-alignment effect. The authors find that higher CEO debt-like compensation leads to lower promised yield and fewer covenants in a sample of loans originated in 2006–2008. This effect is driven entirely by benefits accrued under SERPs, consistent with SERPs' more closely resembling risky corporate debt; balances accrued under RAF and ODC plans do not provide similar effects. Furthermore, promised yields are lower when debt-like compensation claims can be withdrawn only after outside debt claims are expected to settle. The insight for management: Executive debt-like compensation is effective at resolving stockholder–debtholder conflicts only when its payoffs are truly debt-like and lenders' perceptions are affected not only by the magnitude of debt-like compensation but also by its seniority.

Economic Uncertainty, Disagreement, and Credit Markets (p. 1281)
Andrea Buraschi, Fabio Trojani, Andrea Vedolin

How does the equilibrium risk sharing of agents with heterogeneous perceptions of aggregate consumption growth affect bond and stock returns? Although credit spreads and their volatilities increase with the degree of heterogeneity, the decreasing risk premium on moderately levered equity can produce a violation of basic capital structure no-arbitrage relations. The insight for management: Risk premia on corporate bond and stock returns are systematically explained by their exposures to aggregate disagreement shocks.

Investment Banks' Entry into New IPO Markets and IPO Underpricing (p. 1297)
Simon Yu Kit Fung, Ferdinand A. Gul, Suresh Radhakrishnan

What is the relationship between investment banks' initial public offering (IPO) market shares and their prior IPO underpricing in the new IPO market for China-based companies on the Hong Kong Stock Exchange? To gain expertise in Chinese business practices, investment banks have the incentive to obtain business in this new IPO market by providing high offer prices to the issuer, leading to less underpricing and less money on the table. The authors hypothesize and find that the less an investment bank underprices China-based company IPOs, the greater its subsequent market share of China-based company IPOs in the Hong Kong Stock Exchange. Furthermore, this relationship is driven by a bank's initial China-based company IPO deals. The insight for management: In new Chinese IPO markets, investment banks' initial market shares, obtained through lower underpricing, help them grow their market shares in later periods, possibly through the expertise gained in the initial business.

A Branch-and-Cut Method for Dynamic Decision Making Under Joint Chance Constraints (p. 1317)
Minjiao Zhang, Simge Küçükyavuz, Saumya Goel

Can challenging finite-horizon stochastic mixed-integer problems with dynamic decisions under a constraint on the overall performance or reliability of the system be solved more effectively? The authors formulate this problem as a multistage (dynamic) chance-constrained program, whose deterministic equivalent is a large-scale mixed-integer program. They study the structure of the formulation and develop a branch-and-cut method for its solution, and they illustrate the efficacy of the proposed model and method on a dynamic inventory control problem with stochastic demand in which a specific service level must be met over the entire planning horizon. The insight for management: Comparing this dynamic model with a static chance-constrained model, a dynamic risk-averse optimization model, a robust optimization model, and a pseudo-dynamic approach demonstrates that significant cost savings can be achieved at high service levels using this model.

Observation Bias: The Impact of Demand Censoring on Newsvendor Level and Adjustment Behavior (p. 1334)
Nils Rudi, David Drake

Does our ability to meet demand bias our understanding of it? Often, sales volume is used as an indicator of future demand. But if a company fails to meet demand due to shortfalls of inventory or capacity, then are those sales volumes an indicator of demand or of the company's own supply? This "censored demand" may bias the company's understanding of what true, unconstrained demand actually is. The authors investigate three phenomena: level behavior, the decision maker's average ordering tendency; adjustment behavior, the tendency to adjust period-to-period order quantities; and observation bias, the tendency to let the degree of demand feedback influence order quantities. The authors find that the portion of mismatch cost that results from adjustment behavior exceeds the portion of mismatch cost caused by level behavior. With uncensored demand, orders tend to be too low for high-margin items and too high for low-margin items—known as the "pull-to-center" effect. In the case of observation bias, censoring in general leads to lower quantities, magnifying the below-normative-level behavior when they face high margin but partially counterbalancing the above-normative-level behavior when they face low margin, violating the pull-to-center effect in both cases. The insight for management: Ordering practices are prone to error due to a number of informational and behavioral challenges, resulting in increased costs, lost sales, and lower profits.