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Management Insights

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Are Consumers Strategic? Structural Estimation from the Air-Travel Industry (p. 2114)

[Jun Li](#), [Nelson Granados](#), [Serguei Netessine](#)

Are consumers strategic in their purchase decisions? Consumers often consider delaying a purchase strategically, anticipating that prices might decrease. The authors combine two unique data sources from the air-travel industry (posted fare data and booking data) to estimate the fraction of strategic consumers in the population. They find that 5.2% to 19.2% of the population is strategic across markets. Their analysis indicates that shorter trips with more attractive outside options are populated with more strategic consumers. They also find that most strategic consumers arrive either at the beginning of the booking horizon or close to departure. Finally, they find that, contrary to conventional wisdom, the presence of strategic consumers does not necessarily hurt revenues, but this varies by market: Commitment to a nondecreasing pricing strategy is more likely to benefit business markets than leisure markets, or it could even hurt leisure markets. The insight for management: Strategic customers are not necessarily bad for revenues, and their presence affects performance differently in different markets.

Crowdsourcing New Product Ideas Under Consumer Learning (p. 2138)

[Yan Huang](#), [Param Vir Singh](#), [Kannan Srinivasan](#)

What are the economic mechanisms that shape individual behavior and outcomes on crowdsourced ideation platforms? The authors use a rich data set obtained from IdeaStorm.com, a crowdsourced ideation initiative affiliated with Dell. They find that, on IdeaStorm.com, individuals tend to significantly underestimate the costs to the firm for implementing their ideas but overestimate the potential of their ideas in the initial stages of the crowdsourcing process. Therefore, the “idea market” is initially overcrowded with ideas that are less likely to be implemented. However, individuals learn about their abilities to come up with high-potential ideas as well as the cost structure of the firm from peer voting on their ideas and the firm’s

response to contributed ideas. The authors find that individuals learn rather quickly about their abilities to come up with high-potential ideas, but the learning regarding the firm’s cost structure is quite slow. Contributors of low-potential ideas eventually become inactive, whereas the high-potential idea contributors remain active. As a result, over time, the average potential of generated ideas increases while the number of ideas contributed decreases. Hence, the decrease in the number of ideas generated represents market efficiency through self-selection rather than its failure. The authors show that providing more precise cost signals to individuals can accelerate the filtering process. The insight for management: Quality is more important than quantity in crowdsourcing; failure to distinguish between high- and low-potential ideas and between high- and low-ability idea generators causes the overall potential of the ideas generated to drop significantly.

Should Event Organizers Prevent Resale of Tickets? (p. 2160)

[Yao Cui](#), [Izak Duenyas](#), [Özge Şahin](#)

In the recent World Cup soccer tournament, in order to curtail the secondary market for tickets, tickets were issued with a specific attendee’s name, and a photo identification was required to enter. Ticketmaster recently proposed paperless (nontransferrable) ticketing, which would severely limit the opportunity to resell tickets. The authors evaluate whether preventing resale of tickets benefits the capacity providers for sporting and entertainment events. Common wisdom suggests that ticket resale is harmful to event organizers’ revenues, and event organizers have tried to prevent resale of tickets. The authors find that, surprisingly, this wisdom is incorrect when event organizers use fixed pricing policies; in fact, event organizers benefit from reductions in consumers’ (and speculators’) transaction costs of resale. The authors propose ticket options, where consumers would initially buy an option to buy a ticket and then exercise at a later date, as a novel ticket pricing mechanism. The insight for management: Restricting aftermarket ticket sales may

impede revenues, but allowing options to purchase such tickets both naturally slows secondary markets and enhances event organizers' revenue.

Commissions and Sales Targets Under Competition (p. 2180)

Guillermo Gallego, Masoud Talebian

How should sales broker commissions and sales targets be set to improve performance? The authors evaluate two theoretical capacity providers that compete for customers through a broker who earns commissions on sales. The providers compete by selecting commission margins and sales targets above which the margins on total sales increase. The authors study the effect that sales targets have on the profit split between the providers and the broker. They show that contracts require positive sales targets that can be best described as a mechanism for the larger provider to profit at the expense of the smaller provider. However, when commission margins are exogenous and the providers compete by setting targets, the low-margin provider benefits from sales targets at the expense of the broker, who in this context resists the imposition of targets. The insight for management: Effectively establishing sales targets and commissions can directly affect broker performance and profits.

Contracts, Biases, and Consumption of Access Services (p. 2198)

Stephen Leider, Özge Şahin

What is the optimal contract structure for access services such as telephone and Internet contracts? The authors find that consumption is affected by contract structure (pay-per-use versus three-part tariffs) even if the optimal consumption plans are identical. They find that, on average, consumers' choices follow a structure that is similar to a nearly optimal heuristic and correctly react to imbalances between the number of free calls and call opportunities remaining. However, consumers use the free units too quickly, leading to overconsumption and lost surplus. The authors also measure subjects' willingness to pay for a contract with free access units, and they find that nearly half of subjects are willing to pay at least the full per-unit price, with a substantial fraction willing to overpay. The insight for management: The optimal firm strategy offers a three-part tariff at a very small discount, which increases revenue by 8%–14% compared to offering only a pay-per-use contract.

Environmental Externalities and Cost of Capital (p. 2223)

Sudheer Chava

What is the effect of a firm's environmental profile on its cost of equity and debt capital? The author finds that investors demand significantly higher expected returns on stocks excluded by environmental screens

such as hazardous chemical, substantial emissions, and climate change concerns compared to firms without such environmental concerns. Lenders also charge a significantly higher interest rate on the bank loans issued to firms with these environmental concerns. Furthermore, firms with these environmental concerns have lower institutional ownership, and fewer banks participate in their loan syndicate than firms without such environmental concerns. The insight for management: Exclusionary socially responsible investing and environmentally sensitive lending can have a material impact on the cost of equity and debt capital of affected firms.

Nonlinear Kalman Filtering in Affine Term Structure Models (p. 2248)

Peter Christoffersen, Christian Dorion, Kris Jacobs, Lotfi Karoui

Which Kalman filtering technique should be used to linearize the relationship between security prices and state variables? The extended Kalman filter is widely used in fixed-income applications, but the authors evaluate whether the unscented Kalman filter should be used to capture nonlinearities and compare the performance of the Kalman filter with that of the particle filter. They analyze the cross section of swap rates, which are mildly nonlinear in the states, and cap prices, which are highly nonlinear. When caps are used to filter the states, the unscented Kalman filter significantly outperforms its extended counterpart. The unscented Kalman filter also performs well when compared with the much more computationally intensive particle filter. The insight for management: The unscented Kalman filter may be a good approach for a variety of problems in fixed-income pricing.

What Do Credit Markets Tell Us About the Speed of Leverage Adjustment? (p. 2269)

Redouane Elkamhi, Raunaq S. Pungaliya, Anand M. Vijh

What do credit markets tell us about the speed of leverage adjustment? The authors propose a new methodology to infer investors' expectations about the speed of leverage adjustment implicit in the prices of credit instruments. On average, the credit markets imply a fairly rapid annual speed of adjustment of 26% toward a firm's predicted leverage. The speed varies considerably across partitions formed by the differential implications of the pecking order, market timing, and trade-off theories of capital structure. The insight for management: A firm's initial leverage is a poor estimate of its future leverage.

Optimal Credit Swap Portfolios (p. 2291)

Kay Giesecke, Baeho Kim, Jack Kim, Gerry Tsoukalas

How should credit swap portfolios be structured? The authors cast the problem as a goal program that entails

a constrained optimization of preference-weighted moments of the portfolio value at the investment horizon. The portfolio value takes account of the exact timing of protection premium and default loss payments, as well as any mark-to-market profits and losses realized at the horizon. The constraints address collateral and solvency requirements, initial capital, position limits, and other trading constraints that credit swap investors often face in practice. The insight for management: Credit swap investment constraints can have a significant impact on optimal portfolios, even for simple investment objectives.

Financing and Investment Efficiency, Information Quality, and Accounting Biases (p. 2308)

[Lin Nan, Xiaoyan Wen](#)

What is the effect of accounting biases on firms' financing decisions and endogenous information quality? The authors show that, in industries with generally low-profit prospects, a downward-biased accounting system performs better than a neutral accounting system, and a more downward bias helps mitigate both investment and financing inefficiency, whereas, for industries with generally high-profit prospects, an upward-biased accounting system is better than a neutral accounting system, and a more upward bias helps improve financing efficiency. The authors also find that a more downward-biased accounting system motivates good firms to exert more effort to improve the information quality, which improves overall efficiency. The insight for management: Accounting biases can affect firm performance; it is desirable to have a downward bias for low-profit prospects and an upward bias for high-profit prospects.

Does Short Selling Amplify Price Declines or Align Stocks with Their Fundamental Values? (p. 2324)

[Asher Curtis, Neil L. Fargher](#)

Does short selling amplify price declines or align stocks with their fundamental values? Critics of short selling argue that short sellers amplify price declines by targeting firms with falling prices in an unwarranted manner. Contrary to this viewpoint, the authors find that increases in short interest for firms after a price decline are associated with measures of overpricing based on financial statement analysis. The authors also find evidence consistent with the profitability of short

selling after price declines being driven by valuation-based positions. The insight for management: Short sellers primarily undertake valuation-based strategies after price declines and have implications for regulators; limiting short selling after price declines is likely to impede efficient price discovery.

Friendships and Search Behavior in Labor Markets (p. 2341)

[Adina D. Sterling](#)

How do organizations use employee networks to contend with job seekers' search behavior? In markets where job seekers engage in nonsequential job search, organizations respond with tactics such as exploding offers and recruiting candidates earlier. The author posits that organizations have a social structural response. In an attempt to avoid problems related to candidates' job search, organizations are more likely to provide job offers to candidates with friends in the hiring organization than to those without friends. The insight for management: After a period of trial employment, candidates are more likely to receive job offers from organizations if they have a friend employed there than if they do not.

Does Social Proximity Enhance Business Partnerships? Theory and Evidence from Ethnicity's Role in U.S. Venture Capital (p. 2355)

[Deepak Hegde, Justin Tumlinson](#)

Does social proximity enhance business partnerships? The authors evaluate the influence effects of social proximity (homophily) between business partners. They find that U.S. venture capitalists (VCs) are more likely to select start-ups with coethnic executives for investment, particularly when the probability of the start-up's success appears low. Ethnic proximity between VCs and the start-ups they invest in is positively related to performance, measured by the probability of the companies' successful exit through acquisitions and initial public offerings (IPOs) and net income after IPO. The authors' analysis indicates that positive performance outcomes are largely due to influence, that is, superior communication and coordination between coethnic VCs and start-up executives after the investment. The insight for management: To the extent that VCs expect to work better with coethnic start-ups, they invest in coethnic ventures that are of lower observable quality than noncoethnic ventures.