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Management Insights

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Management Insights

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Seeing Stars: Matthew Effects and Status Bias in Major League Baseball Umpiring (p. 2619)
Jerry W. Kim, Brayden G. King

Does Clayton Kershaw, the famous Dodger pitcher, get unfair breaks from the umpires? Using unique data from Major League Baseball umpires' evaluation of pitch quality, which show the difference in a pitch's objective quality and in its perceived quality as judged by the umpire, the authors show that umpires are more likely to overrecognize quality by expanding the strike zone and less likely to underrecognize quality by missing pitches in the strike zone for high-status pitchers. Furthermore, the authors show that umpire errors resulting from status bias lead to actual performance differences for the pitcher and team. The insight for management: Justice is not blind; more famous players tend to get preferential calls from umpires.

Conscience Accounting: Emotion Dynamics and Social Behavior (p. 2645)
Uri Gneezy, Alex Imas, Kristóf Madarász

Does guilt work as a motivator? The authors report the results of two experiments in which people who first made an immoral choice were then more likely to donate to charity than those who did not. In addition, those who knew that a donation opportunity would follow the potentially immoral choice behaved more unethically than those who did not know. The authors interpret this increase in charitable behavior as being driven by a temporal increase in guilt induced by past immoral actions. The insight for management: People tend to engage in "conscience accounting"; after an immoral act, charitable giving grows.

Strategic Ignorance and the Robustness of Social Preferences (p. 2659)
Zachary Grossman

Is ignorance bliss? Given the chance, people avoid learning whether their choice to maximize their own earnings will help or hurt another person. People then choose selfishly, exploiting the "moral wiggle room" provided by their ignorance. This is true in an environment in which the decision maker must actively learn the true payoffs, so inaction means ignorance. Does this effect persist when one must actively choose either to be ignorant or to be informed or when one must actively choose to remain ignorant? In fact, whereas 45% of decision makers remain ignorant when just one mouse click leads to becoming informed, this drops to 25% when one must click in either case and to 3% when one must click to remain ignorant. The insight for management: Decision makers may choose to remain ignorant in order to maintain "moral wiggle room" when faced with a decision, but they are much less likely to actively avoid information to achieve the same status.

Push, Pull, or Both? A Behavioral Study of How the Allocation of Inventory Risk Affects Channel Efficiency (p. 2666)
Andrew M. Davis, Elena Katok, Natalia Santamaría

Should you push or pull in the supply chain? The authors experimentally investigate how the allocation of inventory risk in a two-stage supply chain affects channel efficiency and profit distribution. They first evaluate two common wholesale price contracts that differ in which party incurs the risk associated with unsold inventory: a push contract in which the retailer incurs the risk and a pull contract in which the supplier incurs the risk. The authors' experimental results show that a pull contract achieves higher channel efficiency than does a push contract and that behavior systematically deviates from the standard theory in three ways: (1) stocking quantities are set too low, (2) wholesale prices are more favorable to the party stocking the inventory, and (3) some contracts are erroneously accepted or rejected. To account for these systematic regularities, the authors extend the existing theory and structurally estimate a number of behavioral models. The estimates suggest that a combination of loss aversion with errors organizes the data remarkably well. The authors apply their behavioral model to the advance purchase discount (APD) contract, which combines features of push and

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pull by allowing both parties to share the inventory risk, in a separate experiment as an out-of-sample test, and they find that it accurately predicts channel efficiency and qualitatively matches decisions. The insight for management: The push contract performs close to standard theoretical benchmarks, which implies that it is robust to behavioral biases, and the APD contract weakly Pareto dominates the push contract; retailers are better off and suppliers are no worse off under the APD contract.

Efficiency Analysis of Cournot Competition in Service Industries with Congestion (p. 2684)
Georgia Perakis, Wei Sun

The authors consider Cournot competition in the presence of congestion effects. Their model consists of several service providers with differentiated services, each competing for users who are sensitive to both price and congestion. They distinguish two types of congestion effects, depending on whether spillover costs exist, that is, where one service provider's congestion cost increases with the other providers' output level. The authors quantify the efficiency of an unregulated oligopoly with respect to the optimal social welfare with tight upper and lower bounds. They show that, when there is no spillover, the welfare loss in an unregulated oligopoly is limited to 25% of the social optimum, even in the presence of highly convex costs. On the other hand, when spillover cost is present, there does not exist a constant lower bound on the efficiency of an unregulated oligopoly. The insight for management: Supply chain efficiency depends on the relative magnitude between the marginal spillover cost and the marginal benefit to consumers.

The Assortment Packing Problem: Multiperiod Assortment Planning for Short-Lived Products (p. 2701)
Felipe Caro, Victor Martínez-de-Albéniz, Paat Rusmevichientong

How should retailers manage their shelves given changing product lines? Motivated by retailers' frequent introduction of new items to refresh product lines and maintain their market shares, the authors present the assortment packing problem in which a firm must decide, in advance, the release date of each product in a given collection over a selling season. A key aspect of the problem is that each product is short-lived in the sense that, once introduced, its attractiveness lasts only a few periods and vanishes over time. The objective is to determine when to introduce each product to maximize the total profit over the selling season. The insight for management: When margins are identical and product preferences decay quickly, it is optimal to introduce products with slower decays earlier, and heuristic solution approaches can yield significant improvements in profitability.

Do Relationships Matter? Evidence from Loan Officer Turnover (p. 2722)
Alejandro Drexler, Antoinette Schoar

Do relationships matter? The authors show that the cost of employee turnover in firms that rely on decentralized knowledge and personal relationships depends on the firms' planning horizons and the departing employees' incentives to transfer information. Based on the relationship between borrowers and loan officers, the authors document that borrowers whose loan officers are on leave are less likely to receive new loans from the bank, are more likely to apply for credit from other banks, and are more likely to miss payments or go into default. These costs are smaller when turnover is expected, as in the case of maternity leave, or when loan officers have incentives to transfer information, as in the case of voluntary resignations. The insight for management: Relationships matter; longer loan officer tenure translates to better loan performance.

Portfolio Choice with Illiquid Assets (p. 2737)
Andrew Ang, Dimitris Papanikolaou, Mark M. Westerfield

What is the optimal portfolio mix if some assets are illiquid? The authors develop a model of optimal allocation to liquid and illiquid assets, where illiquidity risk results from the restriction that an asset cannot be traded for intervals of uncertain duration. Illiquidity risk leads to increased risk aversion and reduces the allocation to both liquid and illiquid risky assets. Uncertainty about the length of the illiquidity interval, as opposed to a deterministic nontrading interval, is a primary determinant of the cost of illiquidity. The authors vary market liquidity to vary from "normal" periods, when all assets are fully liquid, to "illiquidity crises," when some assets can be traded only infrequently. The insight for management: The possibility of a liquidity crisis leads to limited arbitrage in normal times; investors are willing to forgo 2% of their wealth to hedge against illiquidity crises occurring once every 10 years.

Rational Information Leakage (p. 2762)
Raffi Indjejikian, Hai Lu, Liyan Yang

Does a trader have incentives to leak information? Empirical evidence suggests that information leakage in capital markets is common. The authors present a trading model to study the incentives of an informed trader (e.g., a well-informed insider) to voluntarily leak information about an asset's value to one or more independent traders. The model shows that, although leaking information dissipates the insider's information advantage about the asset's value, it enhances his information advantage about the asset's execution price

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relative to other informed traders. The profit impacts of these two effects are countervailing. When there are a sufficient number of other informed traders, the profit impact from enhanced information dominates. The insight for management: Insiders have incentives to leak some private information, which has implications for the regulation of insider trading.

Do Parents Matter? Effects of Lender Affiliation Through the Mortgage Boom and Bust (p. 2776)
Claudine Gartenberg

Do parents matter? It is widely acknowledged that the 2007 mortgage crisis was preceded by a broad deterioration in underwriting diligence. The deterioration varied by the industry affiliation of mortgage lenders. Loans issued by homebuilders and stand-alone lenders were significantly less likely to default than loans issued by depository banks and affiliates of major financial institutions. The author argues that homebuilders and stand-alone lenders had the least financial capacity to hold mortgages, and their resulting need to sell loans quickly on the secondary market forced them to issue safer loans. Other explanations, including differences in information and incentives to avoid foreclosure externalities, receive little support. The insight for management: Bigger is not necessarily better; smaller and more nimble firms survived the 2007 mortgage crisis better than major financial institutions.

Positioning on a Multiattribute Landscape (p. 2794)
Ron Adner, Felipe A. Csaszar, Peter B. Zemsky

How important is competitive positioning? Competitive positioning is a central, yet understudied, topic in strategy. Understanding positioning requires understanding two things: how underlying policies are transformed into positions, and how positions are transformed into market performance. The authors show that in a multiattribute setting, trade-offs have critical effects on a range of strategy questions, including the relationship between positions that are operationally efficient and those that remain viable in the face of competition as well as the concentration of market share in the industry. The authors show that increases in business policy interdependence can decrease positioning heterogeneity among firms in an industry. The insight for management: The relationship between strategy heterogeneity and positioning heterogeneity is moderated by the extent of policy interdependence.

Price Advertising by Manufacturers and Dealers (p. 2816)
Linli Xu, Kenneth C. Wilbur, S. Siddarth, Jorge M. Silva-Risso

Is a coupon from Dodge less effective than a coupon from a local dealer? The authors suggest that manufacturer price advertising may be a less effective tool for influencing demand than retailer price advertising. They manipulate the source of a price advertisement in an experiment run on a sample of pickup truck owners and find that manufacturer price advertising leads to lower indicators of potential demand than dealer price advertising, even among consumers who are experienced with the brand. The insight for management: Manufacturer and dealer price advertising both increase the demand intercept and the responsiveness of demand to price, but the effects of dealer price advertising are larger; although dealer price advertising is more effective than manufacturer price advertising, manufacturer price advertising may still be useful to reduce channel conflict.

The Impact of Corporate Sustainability on Organizational Processes and Performance (p. 2835)
Robert G. Eccles, Ioannis Ioannou, George Serafeim

Does a focus on sustainability affect general performance in organizational processes and performance? The authors investigate the effect of corporate sustainability on organizational processes and performance through a survey of 180 U.S. companies. They find a number of differences between high- and low-sustainability companies. First, the boards of directors of high-sustainability companies are more likely to be formally responsible for sustainability, and top executive compensation incentives are more likely to be a function of sustainability metrics. Second, high-sustainability companies are more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of nonfinancial information. Finally, high-sustainability companies significantly outperform their counterparts over the long-term, in terms of both stock market and accounting performance. The insight for management: Being green may print green; high-sustainability companies exhibit distinct organizational processes compared to a sample of low-sustainability companies.