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Management Insights

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Do Market Leaders Lead in Business Process Innovation? The Case(s) of E-business Adoption (p. 1197)
Kristina McElheran

Are market leaders more likely to be early adopters of business process innovations? Although they tend to enjoy economies of scale in adoption, leaders may find that adjustment costs also increase with scale. The author attempts to predict when market leaders will adopt certain business process innovations. The author finds that market leaders are significantly more likely to embrace new information technology-enabled practices, unless customer adjustment costs are a significant concern. The insight for management: There is a strategic significance of external capabilities in the face of technological change that directly affects established firms' willingness to innovate.

***Pay What You Want* as a Marketing Strategy in Monopolistic and Competitive Markets** (p. 1217)
Klaus M. Schmidt, Martin Spann, Robert Zeithammer

Is "pay what you want" (PWYW) good for seller or buyer in monopolistic markets? To the seller, PWYW can be an attractive marketing strategy to price discriminate between fair-minded and selfish customers, to fully penetrate a market without giving away the product for free, and to undercut competitors that use posted prices. In an experimental setting, the authors seek to identify causal factors determining the willingness of buyers to pay voluntarily under PWYW. Furthermore, they evaluate how competition affects the viability of PWYW, and they evaluate markets in which a PWYW seller competes with a traditional seller. Finally, they let sellers choose their pricing strategy. The authors evaluate the social preferences and seller strategic considerations for PWYW. They find that PWYW can be viable on a monopolistic market but that it is less successful as a competitive strategy because it does not drive traditional posted-price sellers out of the market. Instead, the existence of a posted-price competitor reduces buyers' payments and prevents the PWYW seller from fully penetrating the market. The insight for management: Most sellers opt for setting a posted price rather than a PWYW pricing strategy.

An Investigation of the Average Bid Mechanism for Procurement Auctions (p. 1237)
Wei-Shiun Chang, Bo Chen, Timothy C. Salmon

Which bid should win—the lowest one, or one that estimates the likely cost bets? In a procurement context, it can be quite costly for a buyer when the winning seller underestimates the cost of a project and then defaults on the project midway through completion. The average bid auction is one mechanism intended to help address this problem. This format involves awarding the contract to the bidder who has bid closest to the average of the bids submitted. The authors compare the performance of this mechanism with the standard low-price mechanism to determine how successful the average bid format is in preventing bidder losses as well as its impact on the price paid by the buyer. They find that the average bid mechanism is more successful than expected. The insight for management: Surprisingly, bidding behavior remains similar between the average bid and low-price auctions.

Sponsored Search Marketing: Dynamic Pricing and Advertising for an Online Retailer (p. 1255)
Shengqi Ye, Goker Aydin, Shanshan Hu

When a retailer bids higher to attract more customers, should the accompanying price also decrease (to strengthen the bid's effect on demand) or increase (to take advantage of higher willingness to pay)? The retailer's bid on a search keyword affects the retailer's rank among the search results. The higher the rank, the higher the customer traffic and the customers' willingness to pay will be. The authors find that the answer depends on how fast the retailer increases its bid. The optimal price increases only when the optimal bid increases sharply, including the instances where the bid jumps up. The insight for management: As the end of the season approaches, the optimal bid exhibits smooth increases followed by big jumps.

The Fixed Charge Transportation Problem: An Exact Algorithm Based on a New Integer Programming Formulation (p. 1275)
Roberto Roberti, Enrico Bartolini, Aristide Mingozzi

A common shipper problem is how to determine how many shipments and how much volume per shipment? There is a common cost structure of transportation where the cost of sending goods is composed of a fixed cost and a variable cost proportional to the amount of goods sent. The authors show that the linear relaxation of the new formulation is tighter than that of the standard mixed integer programming formulation, implying a better solution in less time. The insight for management: The new algorithm outperforms the state-of-the-art exact methods from the literature and can solve instances with up to 70 origins and destinations.

Disclosure Policy and Industry Fluctuations (p. 1292)
Jeremy Bertomeu, Pierre Jinghong Liang

How does disclosure policy affect industry fluctuations? The authors find that in industries that are highly concentrated or feature low cost of capital, nondisclosure is prevalent and results in stable product prices and high profit margins. Otherwise, firms may selectively disclose to soften competition in the product market. The insight for management: Under partial disclosure, firms withhold information during sharp industry expansions or declines; consequently, the disclosure policy dampens the dissemination of shocks to the industry.

Experiments on Compound Risk in Relation to Simple Risk and to Ambiguity (p. 1306)
Mohammed Abdellaoui, Peter Klibanoff, Lætitia Placido

How do decision makers evaluate complex situations with compound risks versus situations with simple risks? The authors review the treatment of compound risks relative to simple risks and the relationship between compound risk attitudes and ambiguity attitudes. They find that compound risks are valued differently than corresponding reduced simple risks. In particular, many experimental subjects are hard pressed to reduce compound risk to reduce ambiguity, even though many of them would prefer a reduction in ambiguity. The insight for management: Complex, compound risk decisions are often dealt with in a suboptimal way by decision makers, even if they are quantitatively sophisticated.

The Role of Equity, Royalty, and Fixed Fees in Technology Licensing to University Spin-Offs (p. 1323)
Nicos Savva, Niyazi Taneri

What are the roles of royalties, equity, and fees in licensing to university spinoffs? The authors offer a rational explanation for the persistent use of royalties alongside equity in university technology transfer. The authors find that royalties, through their value-destroying distortions, can act as a screening tool that allows a less-informed principal, such as the university's technology transfer office (TTO), to elicit private information from the more informed spinoff. They also show that equity–royalty contracts outperform fixed-fee–royalty contracts because they cause fewer value-destroying distortions. The insight for management: Equity generates higher returns than royalty, and TTOs willing to take equity in lieu of fixed fees are more successful in creating spinoffs.

The Risk Preferences of U.S. Executives (p. 1344)
Steffen Brenner

What is the risk preference of U.S. executives? The author evaluates option exercising data from 1996 to 2008, which yields approximately 65,000 values of relative risk aversion (RRA) for almost 7,000 executives. The observed behavior is generally consistent with moderate risk aversion. Individual characteristics on risk preferences such as gender, marital status, religiosity, and intelligence are tested against risk preference. Senior managers such as CEOs, presidents, and chairpersons of the boards of directors are significantly less risk averse than non-senior executives. RRA heterogeneity is strongly correlated with sector membership and firm-level variables such as size, performance, and capital structure. The insight for management: Risk preference of executives varies greatly by a number of key demographic and industry-specific attributes of the executive.

Changes in the Composition of Publicly Traded Firms: Implications for the Dividend-Price Ratio and Return Predictability (p. 1362)
Stephan Jank

How has the changing composition of U.S. publicly traded firms prompted a decline in the long-run mean of the aggregate dividend-price ratio, most notably since the 1970s? Adjusting the dividend-price ratio for such changes resolves several issues with respect to the predictability of stock market returns. The insight for management: The adjusted dividend-price ratio is less persistent, in-sample evidence for predictability is more pronounced, and there is greater parameter stability in the predictive regression (particularly during the 1990s).

Risk Attitude, Beliefs Updating, and the Information Content of Trades: An Experiment (p. 1378)
Christophe Bisière, Jean-Paul Décamps, Stefano Lovo

How does the information content of trades affect risk attitude and beliefs? The authors find that the information content of the order flow varies with the strength of subjects' prior beliefs about fundamentals. The presence of intrinsic uncertainty about the asset's fundamentals reduces informational efficiency. This originates from subjects' risk attitudes and biases in the way some subjects update their beliefs. The behavior of approximately 63% of the subjects is either risk averse (52%) or risk loving (11%). About 22% of the subjects display non-Bayesian updating of beliefs; underconfidence emerges for weak prior beliefs, and confirmation bias occurs for strong prior beliefs. The insight for management: Non-Bayesian belief updating reduces market efficiency when subjects' prior beliefs are weak and increases it when the prior beliefs are strong.

How Reduced Search Costs and the Distribution of Bidder Participation Affect Auction Prices (p. 1398)
Eric Overby, Karthik Kannan

How do reduced search costs and the distribution of bidder participation affect auction prices? Electronic commerce allows bidders to find and participate in auctions regardless of location. This reduction in bidders' search costs has important effects on bidders' participation patterns and sellers' revenue. The "demand expansion" effect occurs when reduced search costs allow bidders to participate in more auctions. The "demand distribution" effect occurs when reduced search costs allow bidders to distribute themselves more evenly across auctions. The authors focus on the latter effect by modeling when a more even distribution of bidder participation across auctions increases seller revenue. They apply their analytical insights to 65,718 sequential auctions of more than 10 million vehicles in the wholesale used vehicle market. The insight for management: Reduced search costs can increase seller revenue by smoothing the distribution of bidder participation across auctions, even if the aggregate amount of bidder participation remains constant.

Smart People Ask for (My) Advice: Seeking Advice Boosts Perceptions of Competence (p. 1421)
Alison Wood Brooks, Francesca Gino, Maurice E. Schweitzer

Why do we not seek the advice of an expert? Although individuals can derive substantial benefits from exchanging information and ideas, many individuals are reluctant to seek advice from others. The authors find that people are hesitant to seek advice for fear of appearing incompetent, and they suggest that this fear is misplaced. They demonstrate that individuals perceive those who seek advice as more competent than those who do not. This effect is moderated by task difficulty, advisor egocentrism, and advisor expertise. Individuals perceive those who seek advice as more competent when the task is difficult rather than when it is easy, when people seek advice from them personally rather than when they seek advice from others, and when people seek advice from experts rather than from nonexperts or not at all. The insight for management: There are (almost) no stupid questions; asking for help tends to demonstrate competence.

Does Brand Licensing Increase a Licensor's Shareholder Value? (p. 1436)
Adina Bărbulescu Robinson, Kapil R. Tuli, Ajay K. Kohli

Does brand licensing increase a licensor's shareholder value? The authors study 171 brand licensing announcements and subsequent changes in the licensor firms' shareholder values. They find that although brand licensing announcements lead to positive abnormal returns on average, nearly 44% of the announcements in their sample are followed by negative abnormal returns. They argue that investors react more favorably to a brand licensing announcement when they believe that (i) the brand has greater ability to stimulate licensee product sales (and thus generate higher royalties for the licensor) and (ii) the licensor firm has greater ability to limit licensee opportunism (and thus limit brand dilution and its adverse effect on sales of other products marketed under the brand name). They also find that investors react more favorably to announcements involving brands with greater brand fit and greater brand breadth, but investors appear to react less favorably to announcements involving brands with higher advertising investments. The insight for management: Investors react more favorably to announcements involving larger licensors; however, investors' reactions do not appear to be influenced by licensor firms' licensing experience.

Interpersonal Bundling (p. 1456)
Yongmin Chen, Tianle Zhang

Is "interpersonal bundling" profitable? Interpersonal bundling offers a good for sale under a regular price and a group purchase discount if the number of consumers in a group is larger. The authors explain how the profitability of interpersonal bundling with a minimum or maximum group size may depend on the uncertainty of demand. The analysis sheds light on popular marketing practices such as group purchase discounts, and it offers insights on potential new marketing innovation. The insight for management: Interpersonal bundling is often a profitable selling strategy in response to demand uncertainty, and it can achieve the highest profit among all possible selling mechanisms.