



Management Science

Publication details, including instructions for authors and subscription information:
<http://pubsonline.informs.org>

Management Insights

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To cite this article:

Michael F. Gorman (2015) Management Insights. Management Science 61(9):iv-vi. <https://doi.org/10.1287/mnsc.2015.2310>

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Management Insights

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Do Women Avoid Salary Negotiations? Evidence from a Large-Scale Natural Field Experiment (p. 2016)

Andreas Leibbrandt, John A. List

Do women avoid salary negotiations? If so, this could be one cause of the persistent gender pay differences in labor markets. By evaluating nearly 2,500 job seekers into jobs that vary important details of the labor contract, the authors are able to observe both the extent of salary negotiations and the nature of sorting. They find that when there is no explicit statement that wages are negotiable, men are more likely to negotiate for a higher wage, whereas women are more likely to signal their willingness to work for a lower wage. However, when there is explicit mention that wages are negotiable, these differences disappear completely. The insight for management: Men, in contrast to women, prefer job environments where the “rules of wage determination” are ambiguous, which leads to the gender gap being much more pronounced in jobs that leave negotiation of wage ambiguous.

Threshold Effects in Online Group Buying (p. 2025)

Jiahua Wu, Mengze Shi, Ming Hu

How are sign-ups for group-buying services affected by the deals offered? The authors examine two effects. First, there is a surge of new sign-ups around the time when the thresholds of group-buying deals are reached. Second, they evaluate whether the number of sign-ups before the thresholds are reached are more than afterward. The authors examine sign-ups for group-buying deals in 86 city markets covered by Groupon, during a period of 71 days when Groupon predominantly used “a deal a day” format for each local market and posted the number of sign-ups in real time. They find that the first type of threshold effect is significant in all product categories and in all markets. The second type of threshold effect varies across product categories and markets. The insight for management: It is important to consider product and market characteristics in threshold design decisions for online group buying.

Do Tips Increase Workers’ Income? (p. 2041)

Oz Shy

Do tips increase workers’ income? The author examines the effects of tipping on hourly wages and

total tip-inclusive hourly worker compensation. Total worker compensation increases at different rates depending on the market structure, market coverage, and employment level, with the exception of price-taking (competitive) service providers, where the tip-inclusive hourly income declines with the tipping rate. The insight for management: An increase in the tipping rate reduces hourly wages; the author proposes an index of “effective tipping” that measures the net percentage change in total hourly worker compensation associated with each tipping rate.

A Dollar for Your Thoughts: Feedback-Conditional Rebates on eBay (p. 2052)

Luís Cabral, Lingfang (Ivy) Li

Are online customers more apt to provide feedback if they are paid for it? The authors run a series of experiments on eBay where buyers are rewarded for providing feedback. The results provide little support for the hypothesis of buyers’ rational economic behavior: the likelihood of feedback barely increases as feedback rebate values are increased; also, the speed of feedback, bid levels, and the number of bids are all relatively unaffected by rebates. Interestingly, although lower transaction quality leads to a higher probability of negative feedback as well as a speeding up of such negative feedback, offering a rebate significantly decreases the likelihood of negative feedback. The insight for management: Buyers reciprocate the sellers’ high transaction quality with more frequent and more favorable feedback, but although sellers can “buy” feedback, such feedback is likely to be biased.

Branding Conspicuous Goods: An Analysis of the Effects of Social Influence and Competition (p. 2064)

Wilfred Amaldoss, Sanjay Jain

Is branding about product quality, or joining a select group? Branding decisions are critical for the success of new products, such as the Apple Watch. A primary reason is that branding influences consumers’ perceptions of product quality. However, consumers of conspicuous goods care not only about product quality but also about the profile of its users. Apple gave away Apple Watches to celebrities before its full release for this reason; though high-end consumers prefer an exclusive brand, low-end consumers

may find a brand more attractive if high-end consumers use it. The authors analyze how social effects and market structure can influence the branding of conspicuous goods. The insight for management: A monopolist would prefer not to use umbrella branding when consumers' desire for uniqueness is high, but in a competitive market, umbrella branding is more profitable than individual branding when consumers have a high level of desire for uniqueness.

Global Dual Sourcing and Order Smoothing:

The Impact of Capacity and Lead Times (p. 2080)

Robert N. Boute, Jan A. Van Mieghem

How does offshoring affect global supply chains? After decades of offshoring production across the world, companies are rethinking their global networks. Local sourcing is receiving more attention, but it remains challenging to balance the offshore sourcing cost advantage against the increased inventories, because of its longer lead time, and against the cost and (volume) flexibility of each source's capacity. The authors establish reasonably simple prescriptions that capture the key drivers. The insight for management: The financial and operational impacts of single- and dual-sourcing policies are examined.

Advance Selling: Effects of Interdependent Consumer Valuations and Seller's Capacity

(p. 2100)

Man Yu, Roman Kapuscinski, Hyun-Soo Ahn

How should a seller price its products when they are offered both in advance and on the spot? Consumers choose whether and when to buy, but if they buy in advance, their ultimate valuations may range from fully independent to perfectly correlated with spot market prices. Facing these consumers, the seller chooses a portion of the total capacity to offer in advance and prices in both periods. The authors describe how the optimal strategy and benefits of advance selling depend on the interdependence of consumer advance and spot valuations. They find that a change in valuation interdependence can lead to dramatically different policies for the seller. For example, when individual valuations are highly diverse and the consumer population is large, the seller must offer a discount during advance selling but may limit the advance sales. On the other hand, when valuations are highly correlated, the seller can charge a premium price during advance selling. For the same valuation interdependence, the qualitative nature of the optimal strategy changes with available capacity. The insight for management: Advanced sale and spot market pricing must be carefully co-managed; optimal strategies depend on market characteristics and capacity.

An Empirical Investigation of Dynamic Ordering Policies (p. 2118)

Chad R. Larson, Danko Turcic, Fuqiang Zhang

How should ordering policies react to unstable demand? The authors present empirical tests of ordering policies using firm-level data. They estimate a

regression model that relates firm-level inventory purchases to firm-level sales and changes in sales forecasts. They focus on two research questions: Can the adaptive base stock policy explain cross-sectional ordering behaviors under sales growth? If not, what might explain it? They demonstrate disparities in ordering behaviors between firms experiencing high and moderate sales growth. This implies that inventory purchases are a function of not only current sales and changes in sales forecast but also past sales growth. The insight for management: In practice, past demand dynamics, inventory holding risks, and purchasing constraints imposed by supply chain contracts all cause deviations from theoretically optimal ordering policies.

Resource Allocation Decisions Under Imperfect Evaluation and Organizational Dynamics (p. 2139)

Jochen Schlapp, Nektarios Oraopoulos, Vincent Mak

How do imperfect information and organizational competitiveness affect resource allocation to research and development (R&D) projects? Information sharing among the different possible R&D allocations is critical, but it cannot be taken for granted. Instead, individual units need to be incentivized to not only exert effort in evaluating their projects, but also to truthfully reveal their findings. The former requires an emphasis on individual performance, whereas the latter relies on the existence of a common goal across the organization. The authors address the following question: How should a firm balance individual and shared incentives, so that vital information is both acquired, and equally importantly, disseminated to the entire organization? The insight for management: Information on R&D projects is imperfect and it is also costly; it is critical to create appropriate incentive schemes and management of R&D portfolios.

Founder or Joiner? The Role of Preferences and Context in Shaping Different Entrepreneurial Interests (p. 2160)

Michael Roach, Henry Sauermann

In entrepreneurial activities, there are founders who start the company, and joiners who join early in the company's history. How are participants funneled into these roles? Entrepreneurial ventures rely not only on founders but also on "joiners"—start-up employees who are attracted to entrepreneurship, but who do not want to be founders themselves. The authors examine how individuals' interest in being a founder, a joiner, or neither forms prior to the first career transition. They find that although individuals with founder and joiner interests share similar preferences for entrepreneurial job attributes such as autonomy and risk, their preferences for these attributes also differ in significantly meaningful ways. Contextual factors such as norms, role models, and opportunities exhibit very different relationships with founder and joiner interests. Most interestingly, the results suggest that preferences and context interrelate in unique ways to shape different entrepreneurial

interests. In particular, an interest in being a founder is most strongly associated with individuals' preferences for entrepreneurial job attributes, whereas contextual factors do little to shape a founder interest in individuals who lack these preferences. An interest in being a joiner, on the other hand, is associated with both preferences and context, and this relationship is most pronounced for individuals with preferences that predispose them toward entrepreneurship. The insight for management: Joiners are a distinct type of entrepreneurial actor from founders in terms of motivating factors and interests.

**Long-Term Strategic Asset Allocation:
An Out-of-Sample Evaluation** (p. 2185)
Bart Diris, Franz Palm, Peter Schotman

How does the performance of long-term and myopic investing differ? The authors evaluate the out-of-sample performance of a long-term investor who follows an optimized dynamic trading strategy. Interestingly, they find that a short-term investor using a single-period market timing strategy would have realized an almost identical performance. The value of strategic asset allocation appears negligible. A myopic investor only needs to predict one-period-ahead expected returns, but hedge demands also require accurate predictions of the predictor variables. The insight for management: Myopic investing performs well relative to more difficult long-term optimized trading strategies.

**Asset Pricing in a Monetary Economy with
Heterogeneous Beliefs** (p. 2203)
Benjamin Croitoru, Lei Lu

Could the Federal Chairman be causing stock and bond volatility? The central bank is typically less than perfectly open about their intentions. Accordingly, surveys of economists reveal that they frequently disagree in their expectations. The authors examine the role of monetary policy in asset pricing by examining the case in which investors have heterogeneous expectations about future monetary policy which stems from this surreptitious behavior. Under heterogeneity in beliefs, investors place speculative bets against each other on the evolution of the money supply, and as a result the sharing of wealth in the economy evolves stochastically. The authors show that these fluctuations majorly affect the prices of all assets, as well as inflation. The insight for management: The volatility of bond yields and stock market volatility could be significantly increased by the heterogeneity in beliefs.

**Collateral Valuation and Borrower Financial
Constraints: Evidence from the Residential
Real Estate Market** (p. 2220)
Sumit Agarwal, Itzhak Ben-David, Vincent Yao

Are real estate prices inflated and defaults more common through the financing process? Financially

constrained borrowers have the incentive to influence the appraisal process in order to increase borrowing or reduce the interest rate. The authors document that the average valuation bias for residential refinance transactions is above 5%. The bias is larger for highly leveraged transactions and for transactions mediated through a broker. Mortgages with inflated valuations default more often. Lenders account for 60%–90% of the bias through pricing. The insight for management: Appraisal is not market value; because of the need for financing in most cases, real estate prices are often inflated.

**Do I Follow My Friends or the Crowd? Information
Cascades in Online Movie Ratings** (p. 2241)
Young-Jin Lee, Kartik Hosanagar, Yong Tan

Do I follow my friends or the crowd? Online product ratings are widely available on the Internet and are known to influence prospective buyers. Thus, how ratings are generated and, in particular, how they are influenced by prior ratings is of high interest. The authors study the social influence of prior ratings and, in particular, investigate any differential impact of prior ratings by strangers ("crowd") versus friends. They find evidence of both herding and differentiation behavior in crowd ratings wherein users' ratings are influenced positively or negatively by prior ratings depending on movie popularity. In contrast, friends' ratings always induce herding. The insight for management: Beware of online ratings; these findings raise questions about the reliability of ratings as unbiased indicators of quality and advocate the need for techniques to de-bias rating systems.

**The Effect of Self-Control on the Construction of
Risk Perceptions** (p. 2259)
Jayson S. Jia, Uzma Khan, Ab Litt

Does self-control affect our risk perceptions? The authors evaluate whether high or low self-control contributes to perceived riskiness of various behaviors, such as overeating, smoking, and drinking. They find that people with low self-control have increased perceived probabilities of risk, but lower perceived consequences. They also demonstrate that those lower in self-control show relatively less interest in products and lifestyle changes reducing consequences (e.g., a pill that heals liver damage from drinking) than those reducing likelihood of risks (e.g., a pill that prevents liver damage from drinking). The insight for management: The way decision makers construct risk perceptions is systematically influenced by their level of self-control; low self-control results in greater weighting of probability and reduced weighting of consequences of negative outcomes in formulating overall threat perceptions.