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Management Insights

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Management Insights

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Can Private Money Buy Public Science? Disease Group Lobbying and Federal Funding for Biomedical Research (p. 2281) Deepak Hegde, Bhaven Sampat

Can private money buy public science? Private interest groups lobby politicians to influence public policy. Disease group lobbying for funding from the National Institutes of Health (NIH) has been controversial, with critics alleging that it distorts public funding toward research on diseases backed by powerful groups. However, little is known about how lobbying influences the policy decisions made by federal agencies. The authors study this question through examining lobbying by advocacy groups associated with rare diseases for funding by the NIH, the world's largest funder of biomedical research. They find that lobbying is associated with higher political support, in the form of congressional "soft earmarks" for the diseases. Lobbying increases with disease burden and is more likely to be associated with changes in NIH funding for diseases with higher scientific opportunity, suggesting that it may have a useful informational role. Only special grant mechanisms that steer funding toward particular diseases, which comprise less than a third of the NIH's grants, are related to earmarks. The insight for management: Lobbying by private groups influences federal funding for biomedical research; however, the channels of political influence are subtle, affect a small portion of funding, and may not necessarily have a distortive effect on public science.

Cleaning House: The Impact of Information Technology Monitoring on Employee Theft and Productivity (p. 2299) Lamar Pierce, Daniel C. Snow, Andrew McAfee

How do firm investments in technology-based employee monitoring impact both misconduct and productivity? The authors analyze theft and sales data from 392 restaurant locations from five firms that adopted a theft monitoring information technology (IT) product to estimate the treatment effect of IT monitoring on theft and productivity. They find reduced theft and improved productivity that appear to be primarily driven by changed worker behavior rather than worker turnover. This suggests that employee misconduct is

not solely a function of individual differences in ethics or morality, but can also be influenced by managerial policies that can benefit both firms and employees. The insight for management: Theft monitoring deters theft more than detects it; reduced theft can result in a positive return on investment.

The Supply Chain Effects of Bankruptcy (p. 2320) S. Alex Yang, John R. Birge, Rodney P. Parker

How do a firm's financial distress and the legal environment regarding the ease of bankruptcy reorganization alter product market competition and supplier-buyer relationships? The authors identify three effects—predation, bail-out, and abetment—that can change firms' behavior from their actions in the absence of financial distress. The predation effect increases competition before potential bankruptcy as the nondistressed competitor behaves as if it has some first-mover advantage that could benefit a supplier with price control. The bail-out effect reflects the supplier's incentive to grant the distressed firm concessions to preserve competition, improving supply chain efficiency and providing support for the exclusivity rule in Chapter 11 of the United States Bankruptcy Code when the supplier and the distressed firm are financially linked. The abetment effect is that the supplier may deliberately abet the competitor's predation, leading to increased operational disadvantages for the distressed firm before bankruptcy. The insight for management: A firm's bankruptcy potential can hurt its competitors and benefit its suppliers/customers.

Gender Differences in the Willingness to Compete Emerge Early in Life and Persist (p. 2339) Matthias Sutter, Daniela Glätzle-Rützler

What is the origin of the gender gap in the willingness to compete? This gap has been identified as one important factor in explaining gender differences in labor markets and within organizations. The authors conduct three experiments with a total of 1,570 subjects, ages three to 18 years, to investigate the origins of this gender gap. They find that boys are more likely to compete than girls as early as kindergarten and that this gap prevails throughout adolescence. Further, they show that these gender differences also largely persist over a longer time period and can thus be considered

stable. The insight for management: The gender gap in the willingness to compete is estimated in the range of 10–20 percentage points and starts early in life.

Of Age, Sex, and Money: Insights from Corporate Officer Compensation on the Wage Inequality Between Genders (p. 2355)

David Newton, Mikhail Simutin

How does the wage setter affect the gender earnings gap? Based on a data set on compensation of corporate officers whose wages are set by chief executive officers (CEOs), the authors show that CEOs pay officers of the opposite gender less than officers of their own gender, even when controlling for job characteristics. Older and male CEOs exhibit the greatest propensity to differentiate on the basis of sex. Female officers receive smaller raises if the firm is headed by a man. Our results suggest that CEO gender and age are economically more important determinants of officer compensation than are firm stock performance, stock volatility, or return on assets. The insight for management: The gender and age of the wage setter are crucial determinants of the disparity in wages between sexes.

Trading as Gambling (p. 2376)

Anne Jones Dorn, Daniel Dorn, Paul Sengmueller

Is investing in stocks like gambling? Yes, say the authors, who offer evidence from three different samples that investors substitute between playing the lottery and gambling in financial markets. In the United States, increases in the jackpots of the multistate lotteries Powerball and Mega Millions are associated with significant reductions in small trade participation in the stock market. Discount brokerage clients based in California and Germany are significantly less likely to trade during weeks with larger lottery prizes in the California and German lotteries, respectively. Variation in lottery prizes affects speculative trading in more lottery-like securities such as individual stocks and options, but not trading in bonds and mutual funds. Trading that is likely associated with long-term savings motives, such as trading in retirement accounts, does not respond to lottery jackpots either. The negative relation between trading activity and jackpots is stronger for individuals who are more likely to play the lottery. The insight for management: The lottery with big jackpots may be a substitute for stock trading for some investors.

Uncommon Value: The Characteristics and Investment Performance of Contrarian Funds (p. 2394)

Kelsey D. Wei, Russ Wermers, Tong Yao

Buck the trend or go with the group — is contrarian investing better? The authors find that contrarian funds generate superior performance when they trade both against and with the herd, indicating that they possess

superior private information. Furthermore, contrarians do not trade in a particularly correlated fashion with each other, consistent with these funds having disparate information. The insight for management: Contrarian investing pays.

The Value of Funds of Hedge Funds: Evidence from Their Holdings (p. 2415)

Adam L. Aiken, Christopher P. Clifford, Jesse Ellis

What is the value of “funds of hedge funds”? The authors examine the portfolio holdings of funds of hedge funds (FoFs) to identify the channels through which FoFs add value for their clients. FoFs offer access to a diversified portfolio of funds that would be costly for constrained investors to manage on their own. The authors find limited evidence that FoF selection of hedge funds is not of high return, but they find strong evidence that FoFs do make skillful termination decisions. After FoFs divest from a hedge fund, those hedge funds subsequently underperform and fail more often. After becoming investors, FoFs learn and skillfully process information about their portfolio, enabling them to forecast poor future performance. The insight for management: FoFs might not know when to get in, but they know when to get out; FoFs serve an important role as intermediaries in a market characterized by significant frictions and transaction costs.

Do Stock Analysts Influence Merger Completion? An Examination of Postmerger Announcement Recommendations (p. 2430)

David A. Becher, Jonathan B. Cohn, Jennifer L. Juergens

Do analyst recommendations issued after a merger announcement affect deal completion? The authors find that the probability of completion increases with the favorability of acquirer recommendations and decreases with the favorability of target recommendations. The authors suggest that these relations are driven by target shareholders reassessing the merger offer in response to movements in acquirer and target valuations. They also find that favorably recommended firms in a proposed merger underperform after deal resolution, suggesting that investors overreact to postmerger announcement recommendations. The insight for management: Analyst recommendations have a significant effect on merger outcomes.

On Product-Level Uncertainty and Online Purchase Behavior: An Empirical Analysis (p. 2449)

Youngsoo Kim, Ramayya Krishnan

How do online purchase habits change over time given the absence of sensory data such as fit and feel of clothing? Using individual-level transaction data, the authors find that consumers purchase products with a high degree of product uncertainty as their

online shopping experiences help them better estimate product quality. Their results also show that the average and highest prices of market baskets decrease (approximately 1%) when online shopping experience increases (10%). This implies that online consumers are reluctant to buy expensive products with only digitally transferred information, whereas they tend to purchase more of the cheaper products online along with their accumulated online shopping experience. When online consumers buy products priced under \$50, they readily buy products with a high degree of product uncertainty regardless of their online shopping experience. But consumers are unlikely to buy expensive products online if there is a high degree of product uncertainty, even when they have accumulated much online shopping experience. The authors find that online vendors can effectively overcome product-level uncertainty by taking advantage of retailer reputation in the physical world and through the use of digitized video commercials. The insight for management: It is difficult to sell high-priced items online due to the lack of sensory data; however, the challenge can be reduced via video commercials.

Bias Blind Spot: Structure, Measurement, and Consequences (p. 2468)

Irene Scopelliti, Carey K. Morewedge,
Erin McCormick, H. Lauren Min, Sophie Lebrecht,
Karim S. Kassam

Are people aware of their blind spot that causes bias in decision making? The authors report the development of an instrument to measure individual differences in the propensity to exhibit a blind spot in decision making. Somewhat ironically, people tend to believe they are less biased than their peers in decision making. The authors develop a scale that measures the extent to which people judge their own blind spot. They find that people consider themselves to be better than average for easy tasks and worse than average for difficult tasks. They find that the bias blind spot results from naïve realism rather than other forms of egocentric cognition. The insight for management: People exhibit a bias blind spot; they are less likely to detect bias in themselves than in others.

Increasing Quality Sequence: When Is It an Optimal Product Introduction Strategy? (p. 2487)

Mahmood Pedram, Subramanian Balachander

What is the best strategy for introducing increases in product quality? The authors analyze the optimal introduction timing of a seller's products targeted at segments that differ in their willingness to pay for quality. It had been thought that an introduction sequence of a high-quality product followed by a lower-quality version of the product may mitigate the cannibalization effects of the low-quality product on profits from the high-quality product. The authors

show that if customers who value quality more possess an outside option such as a substitute product, a seller may find it optimal to follow a low-quality product with a higher-quality one. Furthermore, the ability of the seller to commit to future quality accentuates the sequential increase in quality in the presence of such buyers. The insight for management: Conditions other than uncertainty or technological improvements occurring over time may justify a seller adopting a strategy of sequentially increasing quality.

Correcting for Misspecification in Parameter Dynamics to Improve Forecast Accuracy with Adaptively Estimated Models (p. 2495)

Ceren Kolsarici, Demetrios Vakratsas

Can adaptive forecast methods be used effectively in multiperiod forecasting? Adaptive estimation methods have become a popular tool for capturing and forecasting changing conditions in dynamic environments. Although adaptive models can provide superior one-step-ahead forecasts, their application to multiperiod forecasting is challenging when the underlying parameter variation process is not correctly specified. The authors propose a methodology to help forecasters improve multiperiod accuracy. Their approach exhibits superior forecasting performance compared to a variety of benchmarks. The proposed method is more likely to increase forecast accuracy when parameter variation is more systematic but misspecified because of uncertainty regarding its exact functional form. The insight for management: An improved approach helps increase adaptive multiperiod forecasts.

The Dynamic Impact of Product-Harm Crises on Brand Preference and Advertising Effectiveness: An Empirical Analysis of the Automobile Industry (p. 2514)

Yan Liu, Venkatesh Shankar

How do product recalls affect brand and advertising effectiveness? The negative impact of "product-harm crises" (recalls) may differ across recall events depending on media coverage of the event, crisis severity, and consumers' prior beliefs about product quality. The authors capture the dynamics in brand preference, advertising effectiveness, and consumer response to product recalls. They test their theory using a unique data set containing 35 automobile brands, 193 auto sub-brands, and 359 recalls during 1997–2002. The results reveal that consumers respond more negatively to product recalls with greater media attention, more severe consequences, and higher perceived product quality. Furthermore, they show that sub-brand advertising effectiveness declines by a greater amount than parent-brand advertising and that the decline in effectiveness of the recalled sub-brand's advertising spills over to other sub-brands under the same parent brand.

The insight for management: Recalls can affect the effectiveness of future branding and advertising efforts.

Peers and Network Growth: Evidence from a Natural Experiment (p. 2536)

Sharique Hasan, Surendrakumar Bagde

How does peer interaction affect social network growth? Much research suggests that social networks affect individual and organizational success. An assumption underlying this research is that network structure is not reducible to the individual attributes of social

actors. The authors test this assumption by examining whether interacting with random peers causes exogenous growth of a person's network. Using three years of network data for students at an Indian college, they evaluate the effect of peers on network growth. They find strong evidence that interacting with random, but well connected, roommates causes significant growth of a focal student's network. The insight for management: Exogenous factors beyond individual agency—e.g., random peers—can shape network structure.