



Management Science

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

Management Insights

Michael F. Gorman

To cite this article:

Michael F. Gorman (2016) Management Insights. Management Science 62(2):iv-vii. <https://doi.org/10.1287/mnsc.2016.2424>

Full terms and conditions of use: <https://pubsonline.informs.org/Publications/Librarians-Portal/PubsOnLine-Terms-and-Conditions>

This article may be used only for the purposes of research, teaching, and/or private study. Commercial use or systematic downloading (by robots or other automatic processes) is prohibited without explicit Publisher approval, unless otherwise noted. For more information, contact permissions@informs.org.

The Publisher does not warrant or guarantee the article's accuracy, completeness, merchantability, fitness for a particular purpose, or non-infringement. Descriptions of, or references to, products or publications, or inclusion of an advertisement in this article, neither constitutes nor implies a guarantee, endorsement, or support of claims made of that product, publication, or service.

Copyright © 2016, INFORMS

Please scroll down for article—it is on subsequent pages



With 12,500 members from nearly 90 countries, INFORMS is the largest international association of operations research (O.R.) and analytics professionals and students. INFORMS provides unique networking and learning opportunities for individual professionals, and organizations of all types and sizes, to better understand and use O.R. and analytics tools and methods to transform strategic visions and achieve better outcomes. For more information on INFORMS, its publications, membership, or meetings visit <http://www.informs.org>

Management Insights

Michael F. Gorman

School of Business Administration, University of Dayton, Dayton, Ohio 45469,
michael.gorman@udayton.edu

Debt and Creative Destruction: Why Could Subsidizing Corporate Debt Be Optimal? (p. 303)

Zhiguo He, Gregor Matvos

Could subsidizing corporate debt be optimal? The authors investigate the welfare benefit of this subsidy and study how the social costs and benefits change with the duration of industry decline such as the paper industry. Debt financing increases incentives to exit, which, although costly for the firm, is socially beneficial; however, these benefits decline as industry distress shortens. The work explains why the debt tax subsidy still persists around the world. The insight for management: Subsidizing corporate debt in declining industries has social benefits that justify the subsidy.

Markdown or Everyday Low Price? The Role of Behavioral Motives (p. 326)

Özalp Özer, Yanchong Zheng

Which is better, Kroger's sales prices, or Walmart's everyday low prices? If the seller counts on strategic, pecuniary motives, then everyday low price is better. But what effect do customers' behavioral motives have on their purchasing decisions? Regret arises when a consumer initially chooses to wait but encounters stock-out later, or when the consumer buys the product at the high price but realizes that the product is still available at the markdown price. In addition, consumers often perceive the product's future availability to be different from its actual availability. The authors determine and quantify that both regret and availability misperception have significant operational and profit implications for the seller. The presence of the behavioral motives reinstates the profitability of markdown over everyday low price, in sharp contrast to prior belief. The insight for management: Ignoring behavioral factors of consumers can result in up to 10% profit losses; tactics that may intensify consumers' misperception of availability, such as disclosing low inventory levels, can have a far-reaching impact on improving the seller's profit.

Investor Sentiment, Beta, and the Cost of Equity Capital (p. 347)

Constantinos Antoniou, John A. Doukas, Avaniidhar Subrahmanyam

How does investor sentiment affect the market value of stocks of different risk levels (or beta levels)? The security market line accords with the capital asset pricing model by taking on an upward slope in pessimistic sentiment periods but is downward sloping during optimistic periods. The authors say that it is because periods of optimism attract equity investment by unsophisticated, overconfident traders in risky opportunities (high beta stocks), whereas such traders stay along the sidelines during pessimistic periods. Thus, high beta stocks become overpriced in optimistic periods, but, during pessimistic periods, noise trading is reduced, so that traditional beta pricing prevails. Without sentiment, these effects offset each other. The insight for management: Noise traders are more bullish about high beta stocks when sentiment is optimistic, whereas investor behavior appears to accord more closely with rationality during pessimistic periods.

Portfolio Choice with Market Closure and Implications for Liquidity Premia (p. 368)

Min Dai, Peifan Li, Hong Liu, Yajun Wang

How do periodic market closure and the fact that market volatility is significantly higher during trading periods affect liquidity premia? The authors find that market closure and the volatility difference across trading and nontrading periods significantly change optimal trading strategies. They demonstrate numerically that transaction costs can have an effect on liquidity premia that is largely comparable to empirical findings. The insight for management: Market closures and market volatility during high-volume periods affect liquidity premia.

Household Production and Asset Prices (p. 387)

Zhi Da, Wei Yang, Hayong Yun

How do households trade off between market consumption and home-produced goods? The authors use

residential electricity usage as an estimate for household production. Based on U.S. residential electricity usage from 1955 to 2012, they estimate the equity premium and the cross section of expected stock returns. The insight for management: Household production may explain 71% of the equity premium on asset prices.

Strategic Waiting for Consumer-Generated Quality Information: Dynamic Pricing of New Experience Goods (p. 410)

Man Yu, Laurens Debo, Roman Kapuscinski

How should a company price a product whose more strategic customers may wait for other customers' reviews before buying? User reviews are useful, not only to the consumers who have not yet purchased the product but also to the firm. However, the value depends on the volume of consumers who share their opinions; thus, it depends on the initial sales volume. The firm may either enhance or dampen the quality information flow via increasing or decreasing initial sales. Without consumer-generated quality information, the firm may reduce the initial sales and lower the initial price. Even when the firm benefits from consumer-generated quality information, it may prefer less-accurate information. Consumer surplus can also decrease due to the consumer-generated quality information, contrary to the conventional wisdom that word of mouth should help consumers. The insight for management: Information may not be power; consumer reviews may hurt both buyer and seller.

Sourcing Strategies and Supplier Incentives for Short-Life-Cycle Goods (p. 436)

Eduard Calvo, Victor Martínez-de-Albéniz

How do suppliers react to multiple sourcing strategies? Multiple sourcing with quick response has been recognized as a useful tool to manage demand risk for short-life-cycle goods. However, it is important not to ignore the effect of these practices on supplier incentives. When suppliers make pricing decisions, dual sourcing does not always lead to higher supply chain efficiency or buyer profits as compared to single sourcing. This loss takes place when suppliers commit to prices up front, before any possible forecast change, but not when they delay the price quotes after demand forecasts have been updated. Specifically, with up-front price commitment, dual sourcing leads to inflation of supplier prices because expensive suppliers will still receive part of the business if they are sufficiently quick. In contrast, with delayed price quotes, a buyer will find dual sourcing beneficial because single sourcing locks it into a monopolistic supplier that extracts most of the available rent. The insight for management: With multiple sourcing, a buyer is best off allowing for delayed price quotes to get the best sourcing deals.

Does the Firm Information Environment Influence Financing Decisions? A Test Using Disclosure Regulation (p. 456)

Susan Albring, Monica Banyl, Dan Dhaliwal, Raynolde Pereira

Does the firm information environment influence financing decisions? Though theory claims that a firm's information environment affects the choice between debt and equity financing, empirical evidence supporting this contention is limited. The authors evaluate this relation within the context of Regulation Fair Disclosure (Reg FD), which prohibited the use of selective disclosure. They find that firms with high proprietary costs of public disclosure are more likely to resort to debt financing after the passage of Reg FD, regardless of whether a firm has relied on selective disclosure in the pre-Reg FD regime. They also evaluate changes in firm disclosure policy and find that firms that adopted an expansive public disclosure policy are more likely to turn to equity financing. The insight for management: Firms with deteriorated firm information environments increase their use of less-information-sensitive debt, whereas firms with improved information environments favor the use of equity financing.

Financial Distress Risk and New CEO Compensation (p. 479)

Woo-Jin Chang, Rachel M. Hayes, Stephen A. Hillegeist

Does financial distress risk affect new CEO compensation? The authors find that the answer is yes, through two channels. First, new CEOs receive significantly more compensation when financial distress risk is higher. This finding is consistent with CEOs receiving a compensation premium for bearing this risk because CEOs experience large personal costs if their firms later become financially distressed. Second, financial distress risk is associated with the incentives provided to new CEOs; distress risk is positively associated with pay-performance sensitivity and equity-based compensation and is negatively associated with cash bonuses. The insight for management: Financial distress risk alters the nature of the agency relationship in ways that lead firms to provide CEOs with more equity-based incentives and is an economically important determinant of new CEO compensation packages.

Discretionary Sanctions and Rewards in the Repeated Inspection Game (p. 502)

Daniele Nosenzo, Theo Offerman, Martin Sefton, Ailko van der Veen

To use the carrot or the stick—how do sanctions and rewards related to inspection affect production behaviors? Put simply, an employee can either work or shirk, and an employer simultaneously chooses

to inspect or not inspect. In total, payoffs are maximized when the employee works and the employer does not inspect. However, this requires some level of trust between the two to achieve this ideal. If the employer has the discretion to sanction or reward the employee, this might change behavior. The authors find that, when employers have limited discretion and can only apply sanctions and/or rewards after an inspection, both instruments are equally effective in reducing shirking and increasing joint earnings. When employers have discretion to reward and/or sanction independent of whether they inspect, rewards are more effective than sanctions. In treatments where employers can combine sanctions and rewards, employers rely mainly on rewards, and outcomes closely resemble those of treatments where only rewards are possible. The insight for management: Employee behaviors are more readily affected by rewards than by sanctions.

Collusion in Dynamic Buyer-Determined Reverse Auctions (p. 518)

Nicolas Fugger, Elena Katok, Achim Wambach

Binding or nonbinding auctions? Although binding reverse auctions have attracted a good deal of interest in the academic literature, in practice, dynamic nonbinding reverse auctions are the norm in procurement. In those, suppliers submit price quotes and can respond to quotes of their competitors during a live auction event. However, the lowest quote does not necessarily determine the winner. The buyer decides after the contest, taking further supplier information into account, on who will be awarded the contract. The insight for management: Binding auctions are preferred; a nonbinding bidding format enables suppliers to collude, thus leading to noncompetitive prices.

Equilibrium Innovation Ecosystems: The Dark Side of Collaborating with Complementors (p. 534)

Andrea Mantovani, Francisco Ruiz-Aliseda

Is it efficient for Beano to be sold with baked beans? There has been a recent burst in the number of collaborative activities among firms selling complementary products. The authors find factors that may result in a lower profitability for such firms overall. Collaboration makes it cheaper to enhance quality, so building innovation ecosystems results in firms investing more than if collaboration were impossible. In markets reaching saturation, firms are trapped in a prisoner's dilemma: The greater investments create more value, but this does not translate into greater value capture because the value created relative to competitors does not change. The insight for management: Collaboration in selling complementary products has a dark side; investing in

the relationship may accrue disproportionate benefits to the selling partner.

Impact of Bayesian Learning and Externalities on Strategic Investment (p. 550)

H. Dharma Kwon, Wenxin Xu, Anupam Agrawal, Suresh Muthulingam

How do learning and externalities between competing investors affect investment behaviors? The authors examine a world where a firm can learn about the profitability of the investment by observing the performance of the other and externalities exist between the investments of two firms that relate to the return on investment. In general, the second mover benefits from the insights gleaned from the return on investment of the first mover, so both parties have an incentive to hold off investment—a so-called war of attrition. The authors find a region of a war of attrition between the two firms in which the interplay between externalities and learning gives rise to counterintuitive effects on investment strategies and payoffs. The insight for management: An increase in the rate of learning—which tends to benefit the follower—can hasten the first investment.

How Point-of-Sale Marketing Mix Impacts National-Brand Purchase Shares (p. 571)

Minha Hwang, Raphael Thomadsen

How does point-of-sale marketing mix impact national-brand purchase shares? Purchase shares of major national brands in consumer packaged-goods industries vary substantially across stores, both between geographic markets and across stores within markets. There are five store-specific marketing mix factors: prices, assortment shares, features, displays, and promotion intensity. The authors find that market-level variation of top national brands accounts for approximately 30% of the weekly purchase share variation across stores, whereas account-level and store-level variation explain an additional 13% and 5% of the variation, respectively. The authors then measure the extent to which assortment, pricing, feature, display, and promotion activities affect the purchase shares of the top national brands. They find that price and assortment share are the two most important point-of-sale factors in determining a brand's purchase share. They also examine how the proximity to a brand's city of origin, the assortment share of a store's private label, the extent of retail competition, and the demographics of the store's neighborhood affect the purchase share's sensitivity to the point-of-sale marketing mix. Finally, they measure the extent to which the variation in top national-brand purchase shares is explained by these five factors. The insight for management: On average, approximately 56% of the variation in national-brand purchase shares can be attributed to these five factors.

These results demonstrate the potential importance of trade marketing on a brand's purchase shares.

**Repeated Interactions and Improved Outcomes:
An Empirical Analysis of Movie Production in
the United States** (p. 591)

Vishal Narayan, Vrinda Kadiyali

How does familiarity among team members affect production success? Many marketing activities take place within teams; these team activities often involve repeated interactions among team members over several projects. The authors study repeated interactions of production teams in 1,123 movies. Three unique insights emerge. Interactions between the producer and other team members have a greater effect on revenues than other repeated pairs for which consumers might have preferences. In many instances, repeated interactions with current team members are more revenue enhancing than individual successes in past movies. In fact, repeated interactions between team members improve current revenues even if such interactions were unsuccessful. The insight for management: The whole is greater than the sum of its parts; familiarity

among team members is more important than prior individual success or failure in the production process.

**The Relationship Between Workplace Stressors
and Mortality and Health Costs in the
United States** (p. 608)

Joel Goh, Jeffrey Pfeffer, Stefanos A. Zenios

Could pushing the employee too hard cost the employer? The authors estimate the excess mortality and incremental health expenditures associated with exposure to the following 10 workplace stressors: unemployment, lack of health insurance, exposure to shift work, long working hours, job insecurity, work–family conflict, low job control, high job demands, low social support at work, and low organizational justice. The authors find that more than 120,000 deaths per year and approximately 5%–8% of annual healthcare costs are associated with and may be attributable to how U.S. companies manage their work forces. The insight for management: More attention should be paid to management practices as important contributors to health outcomes and costs in the United States.