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Management Insights

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Habits of Virtue: Creating Norms of Cooperation and Defection in the Laboratory (p. 631)

Alexander Peysakhovich, David G. Rand

What explains variability in norms of cooperation across organizations and cultures? One answer comes from the tendency of individuals to internalize typically successful behaviors as norms. Different institutional structures can cause different behavioral norms to be internalized. These norms are then spilled over into atypical situations beyond the reach of the institution. Experimentally, the authors demonstrate such spillovers. They find that subjects from environments that support cooperation are more prosocial, more likely to punish selfishness, and more trusting in general. The insight for management: Intrinsically motivated prosociality interacts with externally imposed institutional rules and can spill over into atypical situations.

Incomplete-Information Models of Guilt Aversion in the Trust Game (p. 648)

Giuseppe Attanasi, Pierpaolo Battigalli, Elena Manzoni

How does guilt affect decisions in situations where trust is required among decision makers? If one person makes an investment that generates a social return, and a second person decides how to distribute the proceeds between himself and the first person, then the first must trust the second. Trust is more difficult if there is imperfect information and the participants have different beliefs and motivations. The two participants consider both selfish and altruistic motivations, but it is unclear which motivation dominates; guilt aversion has a role in driving behaviors. The insight for management: With differing motivations and information, trust is more difficult, and guilt aversion plays a more prominent role in outcomes.

The Impact of Negatively Reciprocal Inclinations on Worker Behavior: Evidence from a Retrenchment of Pension Rights (p. 668)

Raymond Montizaan, Andries de Grip, Frank Cörvers, Thomas Dohmen

How do workers react to policy changes that arbitrarily affect groups in different ways? In 2006 the pension

rights of Dutch public sector employees born after December 31, 1949, were curtailed by a law change that abolished the tax deductibility of contributions to sectoral early retirement schemes. Those who were born in 1950 and after are likely to perceive the policy change as unfair. The authors find that job motivation is significantly lower among negatively affected employees who were affected by the reform. The adverse effect on job motivation is stronger for employees born very shortly after the cutoff date of January 1, 1950, as well as for those with many unaffected colleagues, who perceive the policy change as being more unfair. The effect is stronger among workers who are more likely to hold their employer accountable for the drop in their pension rights. The insight for management: Perceptions of equity are critical to worker motivation; policy changes that do not treat employees equally directly affect worker morale.

Sell-Side Debt Analysts and Debt Market Efficiency (p. 682)

Umit G. Gurun, Rick Johnston, Stanimir Markov

How do sell-side debt analysts affect market efficiency? The authors show that debt returns lag equity returns less when debt research coverage exists. The reason is that debt analysts facilitate the process by which available information is impounded in debt prices. They find that the effect is similar to hedge fund ownership's effect, but such effect exists for credit rating agencies. They also find that the dissemination of debt reports has an immediate effect on return volatility in both markets, which is consistent with debt analysts providing new information to securities markets. They find that there is a systematic variation in the debt market's trading and return reactions to debt research. Timely reports and those by high-reputation brokers induce a quicker trading response, thus enhancing liquidity, whereas only timely reports induce a greater return response. The insight for management: There are institutional underpinnings of debt market efficiency that have important implications for information content tests in the debt market, where trading is limited.

Conflict Resolution, Public Goods, and Patent Thickets (p. 704)

Dietmar Harhoff, Georg von Graevenitz, Stefan Wagner

Are challenges to patents valuable for improving the quality of patents? Postgrant validity challenges at patent offices rely on the private initiative of third parties to correct mistakes made by patent offices. The authors suggest that incentives to bring postgrant validity challenges are reduced when many firms benefit from revocation of a patent and when firms are caught up in patent “thickets,” or overlapping sets of patent rights. Using data on opposition to patents at the European Patent Office the authors show that opposition decreases in fields in which many others profit from patent revocations. Moreover, in fields with a large number of mutually blocking patents, the incidence of opposition is sharply reduced, particularly among large firms and firms that are caught up directly in patent thickets. The insight for management: Postgrant patent review may not constitute an effective correction device for erroneous patent grants in technologies affected by either patent thickets or highly dispersed patent ownership.

Under One Roof: A Study of Simultaneously Managed Hedge Funds and Funds of Hedge Funds (p. 722)

Vikas Agarwal, Yan Lu, Sugata Ray

How does the simultaneous management of hedge funds and funds of hedge funds affect performance? Hedge fund firms can choose to simultaneously offer a fund of hedge funds. Similarly, fund of hedge funds firms can simultaneously offer a hedge fund. The authors find that although superior past performance and larger size drive the decision to become simultaneous for hedge fund firms, past flows drive the decision for fund of hedge funds firms. When hedge fund firms start funds of hedge funds, the authors find evidence of value creation, driven by better management of economies of scale and cross learning. In contrast, fund of hedge funds firms starting hedge funds destroy value due to expansion beyond core competencies. The insight for management: Firms learn about their competencies in the two business lines and discontinue underperforming simultaneity arrangements to focus on the business where they perform better.

Volatility Risks and Growth Options (p. 741)

Hengjie Ai, Dana Kiku

How do surprise news events affect growth opportunities and stock volatility? The authors measure growth opportunities by firms’ exposure to idiosyncratic volatility news. They show that the value of a growth option increases in idiosyncratic volatility but its response to volatility of aggregate shocks can be either positive or negative depending on option moneyiness, or the

relative position of the current price of an asset relative to its strike price. The authors show that price sensitivity to variation in idiosyncratic volatility carries significant information about firms’ future investment and growth even after controlling for conventional proxies of growth options such as book-to-market and other relevant firm characteristics. They show that that firm’s exposure to aggregate volatility, while priced, does not help predict their future growth. The insight for management: Option-intensive firms identified using an idiosyncratic volatility-based measure earn a lower premium than do firms that rely more heavily on assets in place.

Hedge Fund Crowds and Mispricing (p. 764)

Richard Sias, H. J. Turtle, Blerina Zykaj

Do large groups of hedge funds that follow similar strategies result in crowded equity positions that destabilize markets? Contrary to widely held belief, the authors find that hedge fund equity portfolios are remarkably independent. Moreover, when hedge funds do buy and sell the same stocks, their demand shocks are, on average, positively related to subsequent raw and risk-adjusted returns. The insight for management: The authors find no evidence that hedge fund demand shocks are inversely related to subsequent returns.

Project Characteristics, Incentives, and Team Production (p. 785)

Richard Fu, Ajay Subramanian, Anand Venkateswaran

How do agency conflicts, free-rider effects, and monitoring costs interact to affect optimal team size and workers’ incentive contracts? The authors find that team size increases with project risk, decreases with profitability, and decreases with monitoring costs as a proportion of output. They find empirical evidence that firm-specific risk has increased over time, average corporate earnings have declined, and firms’ organizational structures have also flattened. They also find that the predicted effects of monitoring costs on team size are supported by evidence that improvements in information technology likely to lower monitoring costs lead to larger teams. Furthermore, firms with relatively more intangible assets, where monitoring costs are likely to be higher, are smaller. Optimal incentive intensities decrease with risk and increase with profitability. The insight for management: The endogenous determination of team size accentuates the positive effects of a decline in risk and an increase in profitability on incentives.

Do Store Brands Aid Store Loyalty? (p. 802)

Satheesh Seenivasan, K. Sudhir, Debabrata Talukdar

Do store brands aid store loyalty by enhancing store differentiation or merely draw price-sensitive customers with little or no store loyalty? The authors empirically investigate the relationship between store brand

loyalty and store loyalty. First, they find a robust, positive relationship between store brand loyalty and store loyalty. Second, they take advantage of a natural experiment involving a store closure and find that the attrition in chain loyalty is lower for households with greater store brand loyalty prior to store closure. The insight for management: Store brands help create store differentiation and loyalty.

The Impact of Walmart Supercenter Conversion on Consumer Shopping Behavior (p. 817)
Minha Hwang, Sungho Park

What is the impact of a Walmart supercenter conversion on consumer shopping behavior? The authors find that Walmart gains 41% in weekly revenue from the conversion. They find that the majority of these gains were due to larger expenditures, with a much smaller impact from increased store visits. By contrast, among competing retailers, grocery stores experience the most significant loss (20% weekly revenue), mostly from fewer store visits, with a much smaller impact attributable to per-visit expenditure. Taken together, these findings show that consumers may benefit from reduced shopping costs by making fewer overall trips and increasing their Walmart basket sizes. In addition, they find that overall revenue gains for Walmart from conversion outweigh the small cannibalization loss at the existing Walmart supercenters located farther away. Finally, they find evidence of increases in category-level spending in preexisting categories in the converted supercenter. The insight for management: Walmart shopper behaviors differ from other retailers in visit frequency and expenditure per visit; a conversion to a supercenter results in larger baskets per visit, not more visits.

The Impact of Combining Conformance and Experiential Quality on Hospitals' Readmissions and Cost Performance (p. 829)

Claire Senot, Aravind Chandrasekaran, Peter T. Ward, Anita L. Tucker, Susan D. Moffatt-Bruce

What is the effect of conformance and experiential quality on hospitals' readmission cost and performance? To investigate the opportunity for hospitals to achieve better care at lower cost, the authors examine two key process quality measures, conformance quality and experiential quality (EQ), and two measures of performance, readmission rate and cost per discharge. Conformance quality represents a hospital's level of adherence to evidence-based standards of care, whereas EQ represents the level of interaction between the hospital's caregivers and patients. Analyzing six years of data from 3,474 U.S. acute care hospitals, they find that combining conformance and experiential quality results in lower readmission rates. However, conformance quality and EQ each independently increase cost per

discharge, which suggests that a readmissions–costs trade-off is unavoidable. Response-focused EQ measures caregivers' ability to respond to patient's explicit needs, whereas communication-focused EQ measures caregivers' ability to engage in meaningful conversations with the patient. They find that combining communication-focused EQ with conformance quality reduces readmission rates. Moreover, as conformance quality increases, the cost of improving communication-focused EQ decreases, indicating complementarity. Response-focused EQ in combination with conformance quality also results in reduced readmission rates. However, as conformance quality increases, the cost of improving response-focused EQ also increases, suggesting that these dimensions might compete for resources. The insight for management: Hospital administrators can mitigate the trade-off between reducing readmissions and controlling costs by prioritizing communication-focused EQ over response-focused EQ.

Cultivating Disaster Donors Using Data Analytics (p. 849)

Ilya O. Ryzhov, Bin Han, Jelena Bradić

How can analytics help cultivate disaster donors? Nonprofit organizations use direct-mail marketing to cultivate one-time donors and convert them into recurring contributors. Cultivated donors generate much more revenue than new donors, but they also lapse with time, making it important to steadily draw in new cultivations. The authors suggest that better-designed mailings can improve success rates without increasing costs. They develop an empirical model to analyze the effectiveness of several design approaches used in practice, based on a massive data set covering 8.6 million direct-mail communications with donors to the American Red Cross during 2009–2011. They find evidence that mailed appeals are more effective when they emphasize disaster preparedness and training efforts over post-disaster cleanup. Including small cards that affirm donors' identity as Red Cross supporters is an effective strategy, whereas including gift items such as address labels is not. Finally, very recent acquisitions are more likely to respond to appeals that ask them to contribute an amount similar to their most recent donation, but this approach has an adverse effect on donors with a longer history. The insight for management: A simple design strategy based on these insights has potential to improve success rates from 5.4% to 8.1%.

Liking and Following and the Newsvendor: Operations and Marketing Policies Under Social Influence (p. 867)

Ming Hu, Joseph Milner, Jiahua Wu

How does social influence affect inventory planning and profitability? A firm selling two substitute products

whose customers' purchase decisions are affected by prior purchases faces greater demand uncertainty. If the product is short-lived (as in the newsvendor problem) and the firm faces economies of scale, then the amplified uncertainty reduces firm profitability. The authors propose three solutions for the firm to better cope with or even benefit from social influence: influencer recruitment and a reduced product assortment either before demand realization or under production postponement. First, the authors reveal an operational benefit of recruiting influencer marketing that a very small fraction of such influencers is sufficient to diminish sales' unpredictability. Second, as the potential substitutability between products increases due to social influence, the firm may leverage the increased substitutability and enjoy lower cost in production by reducing product assortment before demand realization. Last, under production postponement, the firm can take advantage of the way that social influence results in demand herding and reduce product varieties by reacting to preorder information. The insight for management: Firms can take proactive marketing and operational strategies to reduce uncertainty and improve profits in product markets where social influence is an important determinant of demand.

Electricity Trading and Negative Prices:

Storage vs. Disposal (p. 880)

Yangfang (Helen) Zhou, Alan Scheller-Wolf,
Nicola Secomandi, Stephen Smith

How might electricity storage affect electricity markets? Electricity cannot yet be stored on a large scale, but technological advances leading to cheaper and more efficient industrial batteries make grid-level storage of electricity surpluses a natural choice. Because electricity prices can be negative, it is unclear how the presence of negative prices might affect the storage policy structure known to be optimal when prices are only nonnegative, or even how important it is to consider negative prices when managing an industrial battery. For fast storage

(a storage facility that can both be fully emptied and filled up in one decision period), the authors show analytically that negative prices can substantially alter the optimal storage policy structure, e.g., all else being equal, it can be optimal to empty an almost empty storage facility and fill up an almost full one. For more typical slow grid-level electricity storage, the authors numerically establish that ignoring negative prices could result in a considerable loss of value when negative prices occur more than 5% of the time. Negative prices raise another possibility: Rather than storing surpluses, a merchant might buy negatively priced electricity surpluses and dispose of them, e.g., using load banks. The insight for management: The value of such a disposal strategy is approximately \$118 per kilowatt-year when negative prices occur 10% of the time, but smaller than that of the storage strategy, or approximately \$391 per kilowatt-year using a typical battery.

On Socially Optimal Queue Length (p. 899)

Chia-Li Wang

What is the best queue size for society? Suppose customers arrive at an observable queueing system for service with a utility function of reward and waiting cost. The self- (customer) decision is whether to queue or balk, and the social (system administrator) goal is to maximize the profit of the whole system. Whereas the self-optimal policy is relatively easy to obtain, the socially optimal policy, which is of more practical importance, often requires a tedious and ad hoc analysis as a result of external effects. The author uses a simple and general approach to determine the optimal admission policy. The author creates a special rule that admits an extra customer who is served only by the surplus capacity and bears all the increased waiting time and thus incurs no external cost. The insight for management: Queue length based on this rule leads to the optimal social policy and leads to a general procedure for deriving the optimal threshold.