
Management Science

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

# Management Insights

Michael F. Gorman

MANAGEMENT SCIENCE
Vol. 62, No. 7, July 2016, pp. iv–vii
ISSN 0025-1909 (print) | ISSN 1526-5501 (online)

http://dx.doi.org/10.1287/mnsc.2016.2548


# Management Insights

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



**Constituencies and Legislation: The Fight Over the McFadden Act of 1927** (p. 1843)
Raghuram G. Rajan, Rodney Ramcharan

Before the McFadden Act of 1927, some states allowed state banks to open multiple branches, whereas others prohibited all branching. However, nationally chartered banks were, in all cases, not allowed to open branches. As a result, an increasing number of national banks gave up their charter. The McFadden Act attempted to level the playing field by forcing states to accord largely the same branching rights to national banks as to state banks. The McFadden Act of 1927 was one of the most hotly contested pieces of legislation in U.S. banking history, and its influence was felt over half a century later. What was the congressional voting behavior surrounding the act's passage? The authors find that congressmen in districts in which landholdings were concentrated and credit was costlier were significantly more likely to oppose the act. The insight for management: Evidence suggests that whereas the law and the overall regulatory structure can shape the financial system far into the future, they themselves are likely to be shaped by elites, even in countries with benign political institutions.

**Service Competition and Product Quality in the U.S. Automobile Industry** (p. 1860)
Jose A. Guajardo, Morris A. Cohen, Serguei Netessine

What is the impact of warranty length and after-sales service quality on consumer demand in the U.S. automobile industry? The authors estimate a median willingness to pay for one year of a warranty of approximately $850, which is equivalent to 3.1% of the median vehicle price in the sample examined. Further, for a car with median characteristics, the effect on consumer utility of a 1% price decrease is equivalent to increasing product quality by 2.2%, and equivalent to increasing the warranty length by 8%. The results also indicate that service attributes play a compensatory role with respect to product quality; i.e., the impact of warranty length and service quality on demand increases when product quality decreases. Conversely, both service metrics are complementary with respect to demand; i.e., the better the service quality, the higher the marginal effect of longer warranties. The insight for management: In this period of analysis, warranties played a more important role for American firms than for foreign firms, consistent with the fact that American manufacturers exhibited lower product quality and higher service quality than non-American firms.

**Do Nonexecutive Employees Have Valuable Information? Evidence from Employee Stock Purchase Plans** (p. 1878)
Ilona Babenko, Rik Sen

Do nonexecutive employees have valuable information that is conveyed via employee stock purchase plans (ESPPs)? The authors suggest that aggregate purchases of company stock by lower-level employees predict future stock returns. They find that firms in the top quartile of ESPP purchases outperform those in the bottom quartile by 10% in the year after purchase. The relation between ESPP purchases and future stock returns is stronger for firms with high information asymmetry. Furthermore, we find that high ESPP purchases are associated with a lower likelihood of breaks in strings of consecutive earnings increases, as well as higher future sales growth and more innovation. The insight for management: Lower-level employees have information about future firm performance.

**Provision of Incentives for Information Acquisition: Forecast-Based Contracts vs. Menus of Linear Contracts** (p. 1899)
Fangruo Chen, Guoming Lai, Wenqiang Xiao

Can sellers provide valuable forecast information based on the contracts they have with their producers? A forecast-based contract (FC) requires the seller to submit a demand forecast, in which the seller obtains commissions from the realized sales but is also obliged to pay a penalty for any deviation of the sales from the forecast. In a menu of linear contracts

(MLC), the seller can choose a contract that specifies a unique commission rate and a fixed payment. The authors find that the MLC may suffer from a conflicted moral hazard effect that creates friction between motivations for the two efforts, but the FC can decouple these two tasks and thus is superior to the MLC. However, when the demand and supply mismatch cost is substantial, the conflicted moral hazard effect dominates the adverse selection effect, and the FC is more efficient. The insight for management: A forecast-based contract is the more efficient form of contract when working based on a fixed payment and commission contract, unless there is a high cost of supply and demand mismatch, in which case the menu of linear contracts is preferred.

**The Exact Distribution of the Hansen–Jagannathan Bound** (p. 1915)
Raymond Kan, Cesare Robotti

How does the assumption distribution of returns affect estimators? Under the assumption of multivariate normality of asset returns, this paper presents a geometric interpretation and the finite-sample distributions of the sample Hansen–Jagannathan bounds on the variance of admissible stochastic discount factors, with and without the nonnegativity constraint on the stochastic discount factors. In addition, since the sample Hansen–Jagannathan bounds can be very volatile, the authors propose a simple method to construct confidence intervals for the population Hansen–Jagannathan bounds. The insight for management: The analytical results in the paper are robust to departures from the normality assumption.

**Leadership and Incentives** (p. 1944)
Alexander W. Cappelen, Bjørn-Atle Reme, Erik Ø. Sørensen, Bertil Tungodden

How does leader compensation affect public goods provision? A first contributor can inspire others to contribute, but, followers typically compensate less than the leader. There are many examples. At the workplace, people may hesitate to take the leading role in organizing valuable social activities, fearing that their coworkers will not contribute to the same extent. Similarly, parents may avoid taking the lead in organizing a school activity for the children, worrying that the other parents will not follow up. In an experimental setting, the authors find a moderate compensation to the leader is beneficial; it increases the average contribution relative to both a situation where the leader is not compensated and a situation without a leader. A further increase in the leader compensation, however, is detrimental to public goods provision; it attracts more free riders and creates a social crowding-out effect. The insight for management: There can be too much of a good thing; some reward to first movers in a public goods setting can increase total contribution, but too much compensation might crowd out other contributors.

**The Rich Domain of Risk** (p. 1954)
Olivier Armantier, Nicolas Treich

Do events with objective probabilities constitute a unique source of uncertainty? The authors find that, similar to the domain of ambiguity, the domain of risk is rich in the sense that behavior is systematically different when subjects face risky bets based on simple or more complex events. Furthermore, they find a tight association between attitudes toward complex risky bets and attitudes toward both ambiguity and compound lotteries. The insight for management: There are new thoughts about the characterization of ambiguity aversion and the modeling of decisions under uncertainty.

**Corporate Science, Innovation, and Firm Value** (p. 1970)
Markus Simeth, Michele Cincera

How does the disclosure of academic finding in firms affect firm value? Many firms actively disclose research findings in scientific peer-reviewed journals. There are several potential benefits of such scientific boundary-spanning activities, including privileged access to academic information networks. However, scientific disclosure may lead to unintended knowledge spillovers. It remains unclear whether active engagement in science leads to higher returns. The authors investigate the impact of scientific activities on the firm's market value, using accounting data for U.S. firms and matched patent and scientific publication data. The insight for management: There is a positive impact of scientific publications on a firm's market value beyond the effects of research and development, patent stocks, and patent quality, and also document heterogeneity with respect to this impact between different industrial sectors.

**The Impact of Stakeholder Orientation on Innovation: Evidence from a Natural Experiment** (p. 1982)
Caroline Flammer, Aleksandra Kacperczyk

What is the impact of stakeholder orientation on innovation? The authors find that the enactment of constituency statutes leads to a significant increase in the number of patents and citations per patent. They further argue and provide evidence suggesting that stakeholder orientation sparks innovation by encouraging experimentation and enhancing employees' innovative productivity. Finally, they find that the positive effect of stakeholder orientation on innovation is larger in consumer-focused and less eco-friendly industries. The insight for management:

Stakeholder orientation directly affects innovation in the firm.

**Hit or Miss: What Leads Experts to Take Advice for Long-Term Judgments?** (p. 2002)
Philipp Ecken, Richard Pibernik

What leads experts to take advice for long-term judgments? Managers and policy makers frequently face crucial strategic decisions that inevitably rely on judgments about relevant future events. These judgments are often characterized by very high uncertainty and the absence of experience from previous good or bad judgments. Judgments of other experts are oftentimes an important—sometimes the only—source of additional information to reduce uncertainty and improve judgment accuracy. However, in many practical situations, decision makers have very limited means to evaluate the quality of such "advice" from other experts and could tend to ignore this valid source of information. The authors study what leads decision makers to take advice from an expert panel when judging the probability of far-future events with high economic impact. The insight for management: Decision makers have a strong tendency to ignore advice, which pronounces even further when conflicts in terms of beliefs, past experiences, or desires arise.

**Incentive Problems in Performance-Based Online Advertising Pricing: Cost per Click vs. Cost per Action** (p. 2022)
Yu (Jeffrey) Hu, Jiwoong Shin, Zhulei Tang

What are the incentive problems in performance-based online advertising pricing with respect to cost per click and cost per action? The multibillion-dollar online advertising industry continues to debate whether to use the cost per click (CPC) or cost per action (CPA) pricing model as an industry standard. The authors apply the economic framework of incentive contracts to study how these pricing models can lead to risk sharing between the publisher and the advertiser and incentivize them to make efforts that improve the performance of online ads. They find that, compared with the CPC model, the CPA model can better incentivize the publisher to make efforts that can improve the purchase rate. However, the CPA model can cause an adverse selection problem: the winning advertiser tends to have a lower profit margin under the CPA model than under the CPC model. Whether publishers (or advertisers) prefer the CPA model over the CPC model depends on the advertisers' risk aversion, uncertainty in the product market, and the presence of advertisers with low immediate sales ratios. The insight for management: There is a conflict of interest between publishers and advertisers in their preferences for these two pricing models.

**The Effects of Age and Expertise on Product Evaluations: Does the Type of Information Matter?** (p. 2039)
Jing Wang, Catherine A. Cole

The effects of age and expertise on product evaluations: Does the type of information matter? To better understand two large consumer segments, the boomers and the echo-boomers, the authors examine whether and why experts and novices from these two segments rely on attribute versus benefit information in product evaluations. The authors show that expertise affects younger consumers, such that younger novices evaluate products more favorably when the descriptions feature benefit information, whereas younger experts evaluate products more favorably when the descriptions feature attribute information. However, both older novices and experts evaluate products described with benefit information more favorably than those described with attribute information. When information is construed at concrete levels, older consumers behave just like younger consumers—older experts formed more favorable evaluations toward products described with attribute information, but older novices formed more favorable evaluations toward products described with benefit information. When younger consumers are primed to construe information at abstract levels, they prefer products described with benefit information regardless of expertise, just like older consumers. The insight for management: Age, expertise, and concreteness all factor in to product responsiveness to attribute and benefit product descriptions.

**Cumulative Growth in User-Generated Content Production: Evidence from Wikipedia** (p. 2054)
Aleksi Aaltonen, Stephan Seiler

How does previous editing activity affect current editing patterns in user-generated content production websites such as Wikipedia? The authors find that cumulative past contributions, embodied by the current article length, lead to significantly more editing activity, while controlling for a host of factors such as popularity of the topic and platform-level growth trends. The insight for management: Other open content production environments are likely to also benefit from similar cumulative growth effects; managerial interventions that increase content are amplified because they trigger further contributions.

**Constrained Resource Assignments: Fast Algorithms and Applications in Wireless Networks** (p. 2070)
André Berger, James Gross, Tobias Harks, Simon Tenbusch

How should resources be assigned over a rolling horizon while conditions change rapidly? Resource assignment problems occur in a vast variety of applications, from scheduling problems over image recognition to communication networks. Although in some of the applications an assignment of the resources may be needed only once, in many of these applications, the assignment has to be computed more often for different scenarios. In that case it is often essential that the assignments can be computed very fast. Moreover, implementing different assignments in different scenarios may come with a certain cost for the reconfiguration of the system. The authors consider the problem of determining optimal assignments sequentially over a given time horizon, where consecutive assignments are coupled by constraints that control the cost of reconfiguration. They develop fast approximation and online algorithms for this problem with provable approximation guarantees and competitive ratios. The insight for management: Solution quality for a fast heuristic is within a factor of 0.8–0.9 of optimal solutions, and the running times are extremely fast.

**Robust Growth-Optimal Portfolios** (p. 2090)
Napat Rujeerapaiboon, Daniel Kuhn, Wolfram Wiesemann

How good is a growth-optimal portfolio? The growth-optimal portfolio is designed to have maximum expected log return over the next rebalancing period. It has sparked fascination among finance professionals and researchers because it can be shown to outperform any other portfolio with probability 1 in the long run. In the short run, however, it is notoriously volatile. Moreover, its computation requires precise knowledge of the asset return distribution, which is not directly observable but must be inferred from sparse data. The authors design fixed-mix strategies that offer similar performance guarantees as the growth-optimal portfolio but for a finite investment horizon and for a whole family of distributions that share the same expected risk and return. The insight for management: The robust growth-optimal portfolios are competitive with the classical growth-optimal portfolio across most realistic investment horizons and for an overwhelming majority of contaminated return distributions.

**Object Salience in the Division of Labor: Experimental Evidence** (p. 2110)
Marlo Raveendran, Phanish Puranam, Massimo Warglien

How should division of labor be derived? When engaged in the process of division of labor, there are typically multiple alternatives, but insufficient knowledge to choose among them. Under such conditions, the authors propose that not all alternatives are equally likely to be pursued. In particular, when engaged in the process of division of labor for novel and nonrepetitive production, they argue that there is a tendency to perceive and select object-based task partitions over activity-based partitions. The authors investigate how the salience of objects over activities manifests itself in individuals and groups engaged in division of labor for the assembly of strongly or weakly decomposable products. The insight for management: Decisions governing division of labor is often object based rather than activity based.

**Scheduling Homogeneous Impatient Customers** (p. 2129)
Achal Bassamboo, Ramandeep Singh Randhawa

How should scheduling be conducted when customers are impatient? Customer impatience has become an integral component of analyzing services, especially in the context of call centers. Typically, when customers arrive to such systems, they seem identical or homogeneous; however, from the system's perspective, as they wait in the queue, their residual willingness to wait changes. For instance, a customer who has already waited for 10 minutes may have a different residual willingness to wait compared with a customer who has only waited for 1 minute. The authors construct scheduling policies in overloaded systems that dynamically prioritize customers based on their time in queue to optimize any given system performance metric. The insight for management: Implementing the optimal policy can lead to significant improvements over the first-come, first-served policy.