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Management Insights

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Employee Recognition and Performance:

A Field Experiment (p. 3085)

Christiane Bradler, Robert Dur,
Susanne Neckermann, Arjan Non

What is the effect of unannounced, public recognition on employee performance? The authors conduct an experiment in which they hired more than 300 employees to work on a three-hour data-entry task. Random workers unexpectedly received recognition after two hours of work. The authors found that recognition increases subsequent performance substantially, and particularly when recognition is exclusively provided to the best performers. Remarkably, it is not those who received praise, but rather the workers who did not receive recognition who are mainly responsible for this performance increase. The insight for management: Workers have a preference for conformity and being reciprocal at the same time.

One-Way Mirrors in Online Dating:

A Randomized Field Experiment (p. 3100)

Ravi Bapna, Jui Ramaprasad, Galit Shmueli,
Akhmed Umyarov

How has the potential for anonymity in online dating affected the way we meet and date? The growing popularity of online dating websites is altering one of the most fundamental human activities: finding a date or a marriage partner. Online dating platforms offer new capabilities, such as extensive search, big data-based mate recommendations, and varying levels of anonymity, whose parallels do not exist in the physical world. Anonymity allows users to browse profiles of other users anonymously, by being able to check out a potential mate's profile while not leaving any visible online record of the visit. Although this feature may decrease search costs and allow users to search without inhibition, it also eliminates "weak signals" of interest for their potential mates that may play an important role in establishing successful communication. The authors run a field experiment on a major North American online dating website, where 50,000 of 100,000 randomly selected new users are gifted the ability to anonymously view profiles of other users. The insight for management: Com-

pared with those who don't get this gift, the users treated with anonymity become disinhibited, in that they view more profiles and are more likely to view same-sex and interracial mates; however, anonymous users, who lose the ability to leave a weak signal, end up having fewer matches compared with their nonanonymous counterparts, and those matches are not necessarily of higher quality, either.

Consumer Social Responsibility

(p. 3123)
Mark Pigors, Bettina Rockenbach

The authors investigate the emergence of socially responsible (SR) production through consumer decisions. Their experimental treatments vary market competitiveness and consumers' information on social responsibility in production. The authors find that—irrespective of consumers' information—SR production reduces monopolistic supplier's profit and is therefore unlikely to emerge. With supplier competition, SR production positively influences consumers' buying decisions and suppliers offering SR products achieve significantly higher profits, as long as their price is not too high. The insight for management: There is evidence for positive effects of competition on moral behavior; socially responsible production is more consistent with competitive than monopolistic behaviors.

A Reconsideration of Gender Differences in Risk Attitudes

(p. 3138)
Antonio Filippin, Paolo Crosetto

Are females more risk averse than males? In order to test this question, the authors gather data from 54 replications from 7,000 subjects of a well-known risk elicitation method. The insight for management: The authors find that gender differences appear in less than 10% of the studies and are significant but negligible in magnitude once all the data are pooled.

Economic and Policy Implications of Restricted Patch Distribution

(p. 3161)
Karthik Kannan, Mohammad S. Rahman,
Mohit Tawarmalani

Do restricted software patches discourage hackers? The authors study how restricting the availability of

patches to legal users impacts the vendor's profits, market share, software maintenance decisions, and welfare outcomes. Clearly, if the patch is not available to everyone, the hacker finds it easier to exploit the vulnerability in the product and, as a result, is likely to alter his effort. The authors find that the hacker's effort may, on the one hand, decrease the utility that the vendor can extract from the consumers but, on the other hand, may help differentiate the legal version of the product from the pirated version. Therefore, an informed vendor can strategically exploit the hacker's behavior in its pricing and software maintenance decisions. The insight for management: A vendor may increase the price and reduce market share to exploit hacker behavior, and surprisingly create more pirates in the restricted-patch case than when the patch is freely available.

Large Market Declines and Securities Litigation: Implications for Disclosing Adverse Earnings News (p. 3183)

Dain C. Donelson, Justin J. Hopkins

Are large marketwide declines in stock prices associated with higher litigation incidence and settlements even though marketwide events are legally irrelevant? The probability of litigation nearly doubles (from 0.29% to 0.55%) and the amount of settlements also doubles (from \$5.0 million to \$10.1 million) when earnings disclosures occur during a large market decline. Experienced judges are more likely to recognize and dismiss weaker cases; judges without specialized experience in securities litigation are less likely to dismiss cases triggered by disclosures during large market declines. The insight for management: There may be increased litigation risk during large market declines.

When Does Competition Foster Commitment? (p. 3199)

Daniel Ferreira, Thomas Kittsteiner

Can tougher competition strengthen the firm's ability to commit to a focused strategy? A firm may like to commit to a focused business strategy because focus improves efficiency and thus increases profit. The insight for management: Competition fosters commitment for two reasons: (i) competition reduces the value of the option to diversify (the contestability effect), and (ii) competition increases the importance of being efficient (the efficiency effect).

Spatial Organization of Firms and Location Choices Through the Value Chain (p. 3213)

Juan Alcácer, Mercedes Delgado

Do intrafirm linkages affect location choice? The authors explore the impact of geographically bounded, intrafirm linkages (internal agglomerations) and geographically bounded, interfirm linkages (external

agglomerations) on firms' location strategies. Using data from the Census Bureau's Longitudinal Business Database, they analyze the locations of new establishments of biopharmaceutical firms in the United States from 1993 to 2005. They consider all activities in the value chain and allow location choices to vary by research and development, manufacturing, and sales. The effects of internal agglomerations vary by activity, and they arise both within an activity (e.g., among plants) and across activities (e.g., between sales and manufacturing). The insight for management: Internal agglomerations have a positive impact on location.

Does Capital Structure Affect the Behavior of Nonfinancial Stakeholders? An Empirical Investigation into Leverage and Union Strikes (p. 3235)

Brett W. Myers, Alessio Saretto

Does capital structure affect the behavior of nonfinancial stakeholders? The authors study how leverage affects the interaction between firms and an important nonfinancial stakeholder, labor unions. Consistent with the idea that leverage diminishes the bargaining position of labor, they find that unions are less likely to strike when a firm has high leverage or increases leverage prior to a contract negotiation. Further, they find large leverage increases after a strike, consistent with the idea that firms intentionally use leverage to improve their bargaining position. This poststrike increase in leverage is particularly pronounced when the union wins the strike. Moreover, they do not find any clear indication that such increases in leverage are linked to changes in investments. The insight for management: The use of leverage by management can discourage strikes.

Speculative Investors and Transactions Tax: Evidence from the Housing Market (p. 3254)

Yuming Fu, Wenlan Qian, Bernard Yeung

How do transaction taxes affect speculation? The authors examine the impact of a change in transaction tax on speculators in Singapore's housing market. It effectively raised the transaction cost in a segment favored by short-term speculators. The insight for management: A rise in transaction cost in Singapore, equivalent to a two- to three-percentage-point increase in transaction tax, reduced speculative trading in the treatment segment by 75%, raised its price volatility by 18%, and reduced price informativeness.

Make-Take Structure and Market Quality: Evidence from the U.S. Options Markets (p. 3271)

Amber Anand, Jian Hua, Tim McCormick

How does make-take structure affect market quality? The authors examine the make-take structure, which compensates liquidity suppliers and charges liquidity demanders, in the options markets where it com-

petes with a traditional structure that uses payments for order flow. The insight for management: Execution costs (including fees) for liquidity demanders decline after a make-take structure is implemented for the affected options, which encourages market makers to improve quoted prices.

**Competing Under Asymmetric Information:
The Case of Dynamic Random Access Memory
Manufacturing** (p. 3291)

Pedro M. Gardete

What is the role of market information in dynamic random access memory (DRAM) manufacturing and what are the consequences of allowing information sharing in the industry? Much like in other semiconductor environments, DRAM manufacturers face significant demand uncertainty before production and capacity decisions can be implemented. The insight for management: Both firms and customers benefit when firms share information with their competitors; in particular, sharing information is profitable because market price decreases slowly with overproduction.

Deadlines in Product Development (p. 3310)

Juanjuan Zhang

Do deadlines affect project viability? Deadlines are common in product development and are often felt to be too harsh—many development efforts are still worth continuing at the time of mandated termination. The author examines the value of deadlines in project management. If a firm pays an agent to lead product development activities, the chance of success depends on the viability of the project and the effort of the agent. If the project proceeds without success, doubts grow as to whether the project is viable. To motivate continued effort, the firm must promise the agent a generous reward if success is achieved during the late stage of development. However, rewarding late success undermines effort incentives in the early stage. The insight for management: A firm may find it more profitable to impose a hard, early deadline to eliminate the agent's dynamic incentive to procrastinate.

**The Role of Brand Image and Product
Characteristics on Firms' Entry and
OEM Decisions** (p. 3327)

Fabio Caldieraro

What are the optimal market entry and original equipment manufacturer (OEM) decisions of a firm facing a market in which firms' brands can be horizontally differentiated and products can be vertically differentiated? The entrant might sell under its own brand and compete with an incumbent, become a supplier to the incumbent, or both. When con-

sumers perceive the firms are horizontally and vertically differentiated, the entrant profits by simultaneously entering the market and establishing an OEM arrangement with the incumbent. In such competitive scenarios, both buyer and seller increase profits by agreeing on wholesale prices that are not too low, which softens both horizontal and vertical conflict between the firms. The incumbent may prefer to pay high wholesale prices to the entrant even if the incumbent had the option to source the product independently at a lower marginal cost. The insight for management: When firms have the capability of producing each other's product lines, firms may optimally select to differentiate production and, because of the OEM relationship, sell the same product qualities to consumers. In doing so, the OEM arrangement can completely nullify the horizontal and vertical conflict between the firms.

**Hospital Readmissions Reduction Program:
An Economic and Operational Analysis** (p. 3351)

Dennis J. Zhang, Itai Gurvich, Jan A. Van Mieghem, Eric Park, Robert S. Young, Mark V. Williams

The Hospital Readmissions Reduction Program (HRRP), a part of the U.S. Patient Protection and Affordable Care Act, requires the Centers for Medicare and Medicaid Services to penalize hospitals with excess readmissions. What is the effectiveness of this policy in encouraging hospitals to reduce readmissions? Based on more than 3,000 hospitals in the United States, the authors show that this competition can be counterproductive: it increases the number of nonincentivized hospitals, which prefer paying penalties over reducing readmissions in any equilibrium. The insight for management: Under the current policy, 4%–13% of the hospitals remain nonincentivized to reduce readmissions.

**Robust Scheduling Practices in the
U.S. Airline Industry: Costs, Returns, and
Inefficiencies** (p. 3372)

Scott E. Atkinson, Kamalini Ramdas, Jonathan W. Williams

Airlines use robust scheduling to mitigate the impact of unforeseeable disruptions on profits. The authors examine how effectively three common practices—flexibility to swap aircraft, flexibility to reassign gates, and scheduled aircraft downtime—accomplish this goal. The authors find that the per-dollar return from expenditure on gates, or more effective management of existing gate capacity, is three times larger than the per-dollar returns from other inputs. The insight for management: On average, operational inefficiencies cost carriers about \$1.7 billion in revenue annually.