Wednesday WOW
January 23, 2019

Recent Publications by Krannert Management Faculty

Adem Atmaz (Finance) - Atmaz, Adem and Basak, Suleyman, Option Prices and Costly Short-Selling (July 2018). Journal of Financial Economics (JFE), Forthcoming.

Abstract: Much empirical evidence shows that stock short-selling costs and bans have significant effects on option prices. We reconcile these findings by providing a dynamic analysis of option prices with costly short-selling and option marketmakers. In our framework, short-sellers incur a shorting fee to borrow stock shares from lenders, who only partially lend their long positions. We obtain simple, closed-form, unique option bid and ask prices that represent option marketmakers' expected hedging costs, and are weighted-averages of well-known benchmark prices (Black-Scholes, Heston). Consistent with evidence, we show that bid-ask spreads of typical options, put option implied volatilities, and apparent put-call parity violations are increasing in the shorting fee. Our analysis also uncovers several novel predictions, most notably, option bid-ask spreads are decreasing in the partial lending, the option marketmakers' participation in the stock lending market is decreasing in the shorting fee for each call option sold, and the effects of short-selling costs on option bid-ask spreads are more pronounced for relatively illiquid options. We also apply our methodology to corporate bonds, which have option-like payoffs.

Link: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2909473

Fabrice Lumineau (Strategy) - Lumineau F. & Oliveira O. 2018. "A Pluralistic Perspective to Overcome Major Blind Spots in Research on Interorganizational Relationships." Academy of Management Annals, 12(1): 440-465.

Abstract: Interorganizational relationships have attracted much scholarly attention in the last two decades. Despite the significant advances made in this field, the literature still largely relies on assumptions that overlook core features of interorganizational relationships. We build on the organizational research on pluralism to evaluate and identify opportunities to extend the literature on interorganizational relationships. Drawing on a synthesis of the last 20 years of research (1996–2016) on interorganizational relationships, we discuss four major "blind spots" concerning (1) the assumption of symmetry between parties or the focal party's perception is taken to reflect the whole relationship (single-party focus), (2) the assumption of uniform relationships between parties (single-valence focus), (3) the assumption of an interorganizational phenomenon within one level of analysis (single-level focus), and (4) the assumption of universal time (focus on a single conceptualization of time). Through an analysis of exemplary studies, we discuss how and when overcoming each of these blind spots provides novel insights to revisit theoretical mechanisms concerning the functioning of interorganizational relationships. We also identify a coherent set of strategies to address each blind spot. We advance the literature by articulating a pluralistic perspective to guide future research into core questions about interorganizational relationships.

Kelly Wilson (OBHR) - Perringo, Dunford, & Wilson (2018). Work-family backlash: The "dark side" of work-life balance (WLB) policies. Academy of Management Annals, 12.

Abstract: Although continuing to capture the attention of scholars, the study of “work–family backlash” remains plagued by a lack of conceptual clarity. As a result, there is growing evidence to suggest that there is a dark side to work–life balance (WLB) policies, but these findings remain scattered and unorganized. We provide a synthesis of this literature, defining work–family backlash as a phenomenon characterized by negative attitudes, negative emotions, and negative behaviors—either individual or collective—associated with WLB policies [i.e., on-site provisions, leave policies, and flexible work arrangements (FWAs)] within organizations. We conceptualize and define four primary mechanisms involving multiple levels of analysis through which the phenomenon operates. More micro levels of analysis within organizations are characterized by (1) an inequity mechanism, (2) a stigma mechanism, and (3) a spillover mechanism. Although less developed in the literature to date, more macro levels of analysis—including the organization and societal levels—are characterized by (4) a strategic mechanism. We explain these four primary mechanisms—including the theories and literatures on which they are grounded—and develop an original conceptual model to catalyze future research.

Link: https://doi.org/10.5465/annals.2016.0077

Lin Nan (Accounting) - “Optimal Penalty Level, Manipulation, and Investment Efficiency,” Lin Nan and Xiaoyan Wen. Forthcoming, Management Science.

Abstract: In this study we examine whether imposing a penalty based on an earlier positive signal and a bad realized outcome can be welfare-improving. We find that imposing a penalty helps to improve investment efficiency, but it also brings a deadweight cost of potential penalty for entrepreneurs with good projects. We show that when a good project has a much larger chance to achieve a good outcome than a bad project, or when a large proportion of the penalty can be reimbursed to the investor, it is optimal to impose a penalty to deter entrepreneurs with bad projects from reporting positive signals to the greatest degree, as the benefit from reducing the investment inefficiency outweighs the expected deadweight cost. Otherwise, it is optimal not to impose any penalty. We also find that a larger penalty may induce more manipulation by a good entrepreneur. This is because, although a larger penalty directly discourages manipulation for both good and bad types by increasing the expected penalty cost, it also encourages upward manipulation by lowering the implicit financing cost upon a high signal. The encouraging effect is mostly pronounced for the good entrepreneur when he has a much larger chance of success than the bad entrepreneur, or when the reimbursement proportion is very high.

Mike Campion (OBHR) - Campion, E. D., Campion, M. C., & Campion, M. A. (2018). Best practices in incentive compensation bonus administration based on research and professional advice. Compensation & Benefits Review, 49(3), 123-134.

Susan Lu (SCOM) - Lu, S.F. and H. Rui. 2018. "Can We Trust Online Physician Ratings? Evidence from Cardiac Surgeons in Florida", Management Science, 64(6), 2557-2573

Abstract: Despite heated debate about the pros and cons of online physician ratings, little systematic work has examined the correlation between physicians' online ratings and their actual medical quality. Using the ratings of cardiac surgeons at RateMDs and the patient outcomes of coronary artery bypass graft surgeries in the 2013 Florida Hospital Inpatient Discharge Data, we investigate whether online ratings are informative about physicians' medical quality. To account for potentially nonrandom matchings of patients of different severity levels to surgeons of different rating categories, we focus on patients who arrived through the emergency department and explicitly consider how observed and unobserved patient health conditions jointly affect the matching arrangements and surgical outcomes. Both reduced form and two-stage estimation results show that, compared with surgeons rated four stars or higher, or those without rating information, lower rated surgeons are associated with significantly higher in-hospital mortality rates. Our findings suggest that online physician ratings could be a valuable information source for patients to learn about physician quality, at least for cardiac surgeons, a specialty for which treatment outcomes are relatively observable to patients and their family members.

Ellen Kossek (OBHR) - Kossek, E. & Lautsch, B. 2018. Work-life flexibility for whom? Occupational status and work-life inequality in upper, middle, and lower level jobs. Academy of Management Annals 12: 1: 5-36. (Lead article)

Abstract: We define work–life flexibility as employment-scheduling practices that are designed to give employees greater control over when, where, how much, or how continuously work is done. Research has underexamined how work–life flexibility is stratified across occupations. We review how occupational status and flexibility experiences vary and shape work–life inequality, which we identify as a form of job inequality. We investigate the range of definitions, measurement approaches, and theorizing regarding work–life flexibility. We find that employees across occupational groups experience different work–life flexibility outcomes from different flexibility types. Providing employee control over scheduling variation (flextime) may benefit lower level workers the most, yet many are unable to access this flexibility form. Part-time work permitting control over work volume/workload hurts lower level employees the most (because of involuntary income and benefits loss). Yet, these same part-time practices enhance recruitment and retention for upper level jobs but harm promotion and pay. Work continuity control (leaves) benefits upper- and middle-level employees but is largely unavailable to lower level workers. Flexibility to control work location is rarely available for lower level jobs; but benefits middle- and upper level employees, provided that individuals are able to control separation from work when desired and self-regulate complexity. We offer implications for research and practice.

Links to media coverage: https://hbr.org/2018/05/hourly-workers-need-flexibility-the-most-but-are-often-the-least-likely-to-get-it

Cagri Haksoz (Quant) - Optimization under supplier portfolio risk considering breach of contract and market risks, Risk and Decision Analysis.

Abstract: We consider a two-period sourcing and production problem. First, a firm (OEM) sources from multiple suppliers who have limited capacity and correlated disruption risk. After the supply is realized, the firm also has access to the spot market for the extra material needed for its production. The firm must decide (1) which suppliers to source from, (2) how much to source from them, and (3) how much to produce and how much to source from the spot market. We formulate this as a stochastic optimization problem to study the tradeoff the firm faces between costs and default risk. In order to incorporate the correlation of the supplier's default risk, we use the t-copula dependence structure. A contract default is a rare event. Thus, in a Monte Carlo simulation, there is considerable variance around the optimal sourcing quantity. This variance leads to complexity in computing the optimal decision. We find that a diligent combination of importance sampling and conditional Monte Carlo schemes effectively reduces the variance in simulation estimates for the first-order conditions in the stochastic optimization problem. This paper shows that, for a supply chain with correlated default risks, the optimal sourcing problem can be solved by using importance sampling and a conditional Monte Carlo simulation.

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