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# RESEARCH

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# 2011

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## ACCOUNTING & MANAGEMENT

**Allen, Abigail** and Karthik Ramanna. “Towards an Understanding of the Role of Standard Setters in Standard Setting.” Harvard Business School Working Paper 10-105, June 2010. (Revised September 2010)

Brochet, Francois and **Kyle Welch**. “Top Executive Background and Financial Reporting Choice: The Case of Goodwill Impairment.” Harvard Business School Working Paper 11-088, February 2011.

**Loumioti, Maria**. “Accounting Quality and Syndicated Loan Demand.” Working Paper, March 2011.

**Loumioti, Maria**. “Board Networks and Cost of Debt.” Working Paper, September 2011.

**Loumioti, Maria**. “The Use of Intangible Assets as Loan Collateral.” Working Paper, January 2011.

### ABSTRACT

**Allen, Abigail**, and Karthik Ramanna. “Towards an Understanding of the Role of Standard Setters in Standard Setting.” Harvard Business School Working Paper 10-105, June 2010. (Revised September 2010)

We investigate the idiosyncratic influence of standard setters in standard setting. In particular, we examine how FASB members’ length of tenure on the board, their past professional experience, and their political contributions vary with the degree to which the accounting standards they propose are perceived as increasing accounting “relevance” and/or decreasing accounting “reliability.” Among other results, we find that length of tenure on the board and a prior career in investment banking/investment management are associated with proposing standards perceived as decreasing accounting “reliability;” while contributions to the Democratic Party are associated with proposing standards perceived as increasing accounting “reliability.” Broadly, the evidence, by highlighting the influence of standard set-

ters, can broaden our understanding of the political economy of standard setting beyond the role of corporate lobbying.

### ABSTRACT

**Loumioti, Maria**. “The Use of Intangible Assets as Loan Collateral.” Working Paper, January 2011.

The collateralization of intangible assets is a significant innovation in U.S. credit markets that has decreased credit rationing and allowed less capital-intensive firms to raise debt. In the past, lenders have heavily discounted the value of borrowers’ intangibles, viewing these assets as less credible collateral because their expected future cash flows are less certain and predictable. In this paper, I explore the characteristics of borrowers, lenders, and intangibles that determine the decision to collateralize intangibles and balance the uncertainty inherent in these assets. I hypothesize and find that borrower quality and reputation mitigate the risks of accepting intangibles as collateral. Less competitive and non-banking financial institutions are more likely to apply this credit practice. Lenders would also adjust loan terms as risk compensation of accepting lower quality collateral, by increasing loan spread or decreasing loan maturity. Overall, the results suggest that current accounting practice related to intangibles and the use of accounting numbers in debt contracts (stewardship role of accounting) do not constrain non-GAAP adjustments in credit markets.

## BUSINESS ECONOMICS

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Ashlagi, Itai, **Duncan S. Gilchrist**, Alvin E. Roth, and Michael A. Rees. "Chains and Dominos in Kidney Paired Donation—Revisited." *American Journal of Transplantation* (2011).

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**Bernstein, Shai**. "Do Equity Markets Change Innovation Incentives?" (in progress).

**Bernstein, Shai**, Antoinette Schoar, and Joshua Lerner. "The Investment Strategies of Sovereign Wealth Funds." Harvard Business School Working Paper 09-112, March 2009.

**Bernstein, Shai** and Eyal Winter. "Contracting with Heterogeneous Externalities." The Center for Rationality Working Paper, the Hebrew University of Jerusalem, August 2009.

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Stein. "A Comparative-Advantage Approach to Government Debt Maturity." Harvard Business School Working Paper 11-035, September 2010.

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**Pflueger, Carolin** and Jose Montiel Olea. "Is  $F > 10$

enough? A Heteroskedasticity and Autocorrelation Robust Pre-Test for Weak Instruments.” Working Paper, 2011.

**Pflueger, Carolin** and Luis M. Viceira. “Inflation-Indexed Bonds and the Expectation Hypothesis.” *Annual Review of Financial Economics* (forthcoming).

**Pflueger, Carolin** and Luis M. Viceira. “An Empirical Decomposition of Risk and Liquidity in Nominal and Inflation-Indexed Government Bonds.” Harvard Business School Working Paper 11-094, March 2011.

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**Starc, Amanda** and Keith Ericson. “The Design of Health Insurance Exchanges: Evidence from the Massachusetts Health Connector” (in progress).

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## ABSTRACT

**Pflueger, Carolin** and Luis M. Viceira. “An Empirical Decomposition of Risk and Liquidity in Nominal and Inflation-Indexed Government Bonds.” Harvard Business School Working Paper 11-094, March 2011.

This paper decomposes the excess return predictability in inflation-indexed and nominal government bonds into effects from liquidity, market segmentation, real interest rate risk and inflation risk. We estimate a large and variable liquidity premium in US Treasury Inflation Protected Securities (TIPS) from the co-movement of breakeven inflation with liquidity proxies. The liquidity premium is around 70 basis points in normal times, but much larger during the early years of TIPS issuance and during the height of the financial crisis in 2008–2009. The liquidity premium explains the high excess returns on TIPS as compared to nominal Treasuries over the period 1999–2009. Liquidity-adjusted breakeven inflation appears stable, suggesting stable inflation expectations over our sample period. We find predictability in both inflation-indexed bond excess returns and in the spread between nominal and inflation-indexed bond excess returns even after adjusting for liquidity, providing evidence for both time-varying real

interest rate risk premia and time-varying inflation risk premia. Liquidity appears uncorrelated with real interest rate and inflation risk premia. We test whether bond return predictability is due to segmentation between nominal and inflation-indexed bond markets but find no evidence in either the US or in the UK.

## HEALTH POLICY MANAGEMENT

**Adler-Milstein, Julia**, David Bates, and Ashish K. Jha. “Health Information Exchange in the U.S.: Implications for Meaningful use.” *Annals of Internal Medicine* (in press).

**Adler-Milstein, Julia**, Catherine M. Desroches, and Ashish K. Jha. “Competition and Health Information Exchange among U.S. Hospitals.” *Health Affairs* (Revise and Resubmit).

**Adler-Milstein, Julia**, John Landefeld, and Ashish K. Jha. “Characteristics Associated with Regional Health Information Organization Viability.” *Journal of the American Medical Informatics Association* 17, no. 1 (2010): 61–65.

**Adler-Milstein, Julia**, Sara Singer, and Michael Toffel. “Speaking Up Constructively: Managerial Practices that Elicit Solutions from Front-Line Employees.” *Organization Science* (Revise and Resubmit).

**Adler-Milstein, Julia** and David W. Bates. “Paperless Healthcare: Progress and Challenges of an IT-Enabled Healthcare System.” *Business Horizons* 53, no. 2 (April 2010): 119–130.

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**Valentine, Melissa**, Jan Blustein, and Steven Fass. "Hospital Financial Strength and Quality of Care." Working Paper, August 2010.

**Valentine, Melissa**, Ingrid M. Nembhard, and Amy C. Edmondson. "Measuring Teamwork: A Review of Survey Instruments." Working Paper, August 2010.

## ABSTRACT

**Adler-Milstein Julia**, Sara Singer, and Michael Toffel. "Speaking Up Constructively: Managerial Practices that Elicit Solutions from Front-Line Employees." *Organization Science* (Revise and Resubmit).

Ideas that could enable organizations to improve their operating processes often come from front-line workers who voice concerns and share ideas about how to solve problems. Our study is among the first to develop and empirically test theory about how specific management practices can encourage employees to speak up about problems and to offer suggestions for solving them. We hypothesize that employees are more likely to speak up and offer solutions when organizations launch information campaigns to promote process improvement and when managers engage in process-improvement activities themselves. We test our hypotheses in the health-care context, in which problems are frequent and many organizations use incident-reporting systems to encourage employees to communicate about the operational problems they witness. Using data on nearly 7,500 reported incidents, we find that information campaigns encouraging process improvement promote both speaking up and offering solutions, while managerial engagement in process improvement promotes the latter. Our findings suggest that particular management practices can influence front-line workers' decisions about whether to speak up and that direct managerial engagement can result in their doing so constructively.

## MANAGEMENT

**Bernstein, Ethan** and Frank Barrett. "Strategic Change and the Jazz Mindset: Exploring Practices that Enhance Dynamic Capabilities for Organizational Improvisation" *Research in Organizational Change and Development* (forthcoming).

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Siegel, Jordan I. and **Barbara Zepp Larson**. "Labor Market Institutions and Global Strategic Adaptation: Evidence from Lincoln Electric." *Management Science* 55, no. 9 (September 2009): 1527–1546.

Tadmor, Carmit, **Patricia Satterstrom**, **Sujin Jang**, and Jeffrey Polzer. "Fostering Collective Creativity through Multicultural Experience." Working Paper, May 2010.

**Yu, Howard H.** "Leopards Sometimes Change their Spots: How Firms Manage a Shift between Strategic Archetypes." Israel Strategy Conference, 2010. September 2010.

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## ABSTRACT

Tadmor, Carmit, **Patricia Satterstrom**, **Sujin Jang**, and Jeffrey Polzer. "Fostering Collective Creativity through Multicultural Experience." Working Paper, May 2010.

We predicted that experience with foreign cultures among members of a collective would enhance joint creativity in a multiplicative fashion. Using a two-step methodology that included both individual and dyadic brainstorming sessions, we found that even after controlling for individual creativity, multicultural experience had a multiplicative effect on dyadic creativity. Specifically, dyads performed best on a creative task in terms of fluency, flexibility, and novelty—three classic dimensions of creativity—when both dyad partners had high levels of multicultural experience. These results show that when it comes to multicultural experience, the creative whole is greater than the sum of its parts. We discuss the implications of these results for research on multiculturalism, diversity, and creativity.

## MARKETING

**Anik, Lalin,** Lara B. Aknin, Michael I. Norton, and Elizabeth W. Dunn. "Feeling Good about Giving: The Benefits (and Costs) of Self-Interested Charitable Behavior." Harvard Business School Working Paper 10-012, August 2009.

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**Chance, Zoe** and Rohit Deshpande. "Putting Patients First: Social Marketing Strategies for Treating HIV in Developing Nations." *Journal of Macromarketing* 29, no. 3 (2009): 220–232.

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**Chance, Zoe,** Michael I. Norton, Francesca Gino, and Dan Ariely. "A Temporal View of the Costs and Benefits of Self-Deception" *Proceedings of the National Academy of Sciences* (forthcoming).

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**Yalcin, Taylan,** Elie Ofek, Oded Koenigsberg and Eyal Biyalogorsky. "Complementary Goods: Creating and Sharing Value." Working Paper, 2011.

### ABSTRACT

**Chance, Zoe,** Michael I. Norton, Francesca Gino, and Dan Ariely. "A Temporal View of the Costs and

Benefits of Self-Deception." *Proceedings of the National Academy of Sciences* (forthcoming).

Researchers have documented many cases in which individuals rationalize their regrettable actions. Four experiments examine situations in which participants go beyond merely explaining away their misconduct to actively deceiving themselves. We find that those who exploit opportunities to cheat on tests are likely to engage in self-deception, inferring that their elevated performance is a sign of intelligence. This short-term psychological benefit of self-deception, however, can come with longer-term costs: when predicting future performance, participants expect to perform equally well—a lack of awareness that persists even when these inflated expectations prove costly. We show that although people expect to cheat, they do not foresee self-deception, and that factors which reinforce the benefits of cheating enhance self-deception. More broadly, the findings of these experiments offer evidence that debates about the relative costs and benefits of self-deception are informed by adopting a temporal view that assesses the cumulative impact of self-deception over time.

### ABSTRACT

**Yalcin, Taylan,** Elie Ofek, Oded Koenigsberg and Eyal Biyalogorsky. "Complementary Goods: Creating and Sharing Value." Working Paper, 2011.

This paper studies the strategic interaction between firms producing strictly complementary products. With strict complements, e.g., hardware and software, a consumer derives positive utility only when both products are used together. In our analysis we identify two important problems that occur when the products are developed and sold by separate firms ('non-integrated' development): value sharing (firms charge higher prices) and value creating (firms choose lower quality). On the other hand, an integrated firm is immune to these problems as it can internalize all the gains from its decisions on price and quality. However, it is not always possible for a single firm to have the skill and know-how to develop both hardware and software. The production of complements usually needs to be sequential and this distorts the quality decisions such that the second firm shirks in quality more than the first firm, securing a profit advantage. We also analyze the effects of various mechanisms and market structures such as royalty fees and competition on the interaction between complementors. If the first mover can mandate a royalty or licensing payment from the second firm for permission to produce a compatible product (as often occurs in hardware-software arrangements), the profit advantage flips: the first mover captures a larger share of value created via royalty fees, while the quality gap between the firms gets exacerbated. In other words, a royalty structure slightly mitigates the value creation problem but also aggravates the

value sharing problem. If a new player that develops its own hardware joins to the original firms, not surprisingly, the original hardware firm loses profit and the software firm's profits increase. In contrast, when a new player joins when there is a royalty agreement between the original firms, there exists a win-win-win solution. In this case the addition of a lower quality hardware firm alleviates both the value sharing and the value creating problems.

## ORGANIZATIONAL BEHAVIOR

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Rashid, Faaiza and Amy C. Edmondson. "Risky Trust: How Multi-Entity Teams Develop Trust in a High Risk Endeavor." Harvard Business School Working Paper 11-089, February 2011.

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**Shu, Lisa L., Chia-Jung Tsay,** and Max H. Bazerman. "Cognitive, Affective, and Special-Interest Barriers to Policy Making." *Frontiers in Social Psychology: Social Judgment and Decision Making* (2011).

**Srivastava, Sameer.** "Hunkering Down and Venturing Out: Network Activation in Response to the Uncertainty of Organizational Restructuring." Working Paper, March 2011.

**Srivastava, Sameer B.** and Mahzarin R. Banaji. "Culture, Cognition, and Collaborative Networks in Organizations." *American Sociological Review* 76, no. 2 (April 2011): 207–233.

Tadmor, Carmit, **Patricia Satterstrom,** Sujin Jang, and Jeffrey Polzer. "Fostering Collective Creativity through Multicultural Experience." Working Paper, May 2010.

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**Tsay, Chia-Jung** and Mahzarin R. Banaji. "Naturals and Strivers: Preferences and Beliefs about Sources of Achievement." *Journal of Experimental Social Psychology* 47, no. 2 (March 2011): 460–465.

**Tsay, Chia-Jung** and Max H. Bazerman. "Commentary and Future Directions for Negotiations." In *The Psychology of Negotiations in the 21st Century Workplace*, edited by Barry M. Goldman and Debra Shapiro, 2011.

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Tucker, Sean, Nick Turner, Julian Barling, **Erin Reid,** and Cecilia Elving. "Apologies and Transformational Leadership." *Journal of Business Ethics* 63, no. 2 (2006): 195–207.

## ABSTRACT

**Srivastava, Sameer B.** and Mahzarin R. Banaji. "Culture, Cognition, and Collaborative Networks in Organizations." *American Sociological Review* 76, no. 2 (April 2011): 207–233.

This article examines the interplay of culture, cognition, and social networks in organizations with norms that emphasize cross-boundary collaboration. In such settings, social desirability concerns can induce a disparity between how people view themselves in conscious (i.e., deliberative) versus less conscious (i.e., automatic) cognition. These differences have implications for the resulting pattern of intra-organizational collaborative ties. Based on a laboratory study and field data from a biotechnology firm, we find that (1) people consciously report more positive views of themselves as collaborative actors than they appear to hold in less conscious cognition; (2) less conscious collaborative-independent self-views are associated with the choice to enlist organizationally distant colleagues in collaboration; and (3) these self-views are also associated with a person's likelihood of being successfully enlisted by organizationally distant colleagues (i.e., of supporting these colleagues in collaboration). By contrast, consciously reported collaborative-independent self-views are not associated with these choices. This study contributes to our understanding of how culture is internalized in individual cognition and how self-related cognition is linked to social structure through collaboration choices. It also demonstrates the limits of self-reports in settings with strong normative pressures and represents a novel integration of methods from cognitive psychology and network analysis.

## ABSTRACT

**Tsay, Chia-Jung** and Mahzarin R. Banaji. "Naturals and Strivers: Preferences and Beliefs about Sources of Achievement." *Journal of Experimental Social Psychology* 47, no. 2 (March 2011): 460–465.

To understand how talent and achievement are perceived, three experiments compared the assessments of "naturals" and "strivers." Professional musicians learned about two pianists, equal in achievement but who varied in the source of achievement: the "natural" with early evidence of high innate ability, versus the "striver" with early evidence of high motivation and perseverance (Experiment 1). Although musicians reported the strong belief that strivers will achieve over naturals, their preferences and beliefs showed the reverse pattern: they judged the natural performer to be more talented, more likely to succeed, and more hireable than the striver. In Experiment 2, this "naturalness bias" was observed again in experts but not in nonexperts, and replicated in a between-subjects design in Experiment 3. Together, these experiments show a bias favoring naturals over strivers even when the achievement is equal, and a dissociation between stated beliefs about achievement and actual choices in expert decision-makers.

## STRATEGY

Alusi, Annissa, Robert G. Eccles, Amy C. Edmondson, and **Tiona Zuzul**. "Sustainable Cities: Oxymoron or the Shape of the Future?" Harvard Business School Working Paper 11-062, Rev ed, December 2010.

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**Zuzul, Tiona** and Amy C. Edmondson. "Strategy as Innovation: Emergent Goal Formation in a Nascent Industry" Harvard Business School Working Paper 11-099, March 2011.

### ABSTRACT

Malesky, Edmund and **Markus Taussig**. "Where is Credit Due? Legal Institutions, Connections, and the Efficiency of Bank Lending in Vietnam." *Journal of Law, Economics, and Organization*, Vol. 25, No. 2.

Rapid development of the domestic private sector in communist China and Vietnam has been offered as evidence against a large literature that claims a solid legal infrastructure is required for the financial sector to contribute to economic development. One component of the counterargument holds that relationship-based lending has served as an effective substitute for legal institutions. In this article, we challenge this assertion with empirical findings that show bank credit allocation that relies heavily on "connections" undermines the impact of finance on investment growth. Our data come from Vietnam, where—like China—the private sector and financial sector are expanding dramatically but rule of law has not kept pace. Although Vietnam's banking sector is in transition toward a healthier system, it still allocates a disproportionate share of credit to "connected" enterprises in less competitive regions. We find that political connections, in particular, are an inef-

fective tool for channeling bank credit to the most profitable investors. Using a two-stage empirical approach, we find evidence that banks place greater value on connections than performance and that the firms with greater access to bank loans are no more profitable than firms without them. By some measures, connected firms are even significantly less profitable. We conclude by demonstrating that the most profitable investors in Vietnam have forgone the formal banking system, preferring to finance their activities out of reinvested earnings or informal loans.

### ABSTRACT

**Zuzul, Tiona**, and Amy C. Edmondson. "Strategy as Innovation: Emergent Goal Formation in a Nascent Industry" Harvard Business School Working Paper 11-099, March 2011.

Building on research in strategy formation and organizational innovation, this paper reports on a field study of a young company in the sustainable cities industry. We examine how company founders, facing the high ambiguity inherent in very early phases of a new industry, formed a strategic goal. Our data show goal formation as a phased social process. By aggregating previously encountered solutions to known problems, the founding team formed an emergent goal that presented an innovative solution to a new problem and the basis of the new company's business model. We analyze this process to explain how, under conditions of ambiguity, organizational goals can form through a collaborative social exchange that resembles the innovation process. Our research suggests that, under particular conditions, novel ideas can be generated and ambiguous contexts navigated without great foresight. Instead, entrepreneurs can arrive at innovative ideas through the collaborative integration of a disparate set of local problems and solutions. By illuminating the goal formation process in a nascent industry, we contribute to organizational literatures on strategy, decision-making, and innovation.

## TECHNOLOGY & OPERATIONS MANAGEMENT

**Buell, Ryan W.**, Dennis Campbell, and Frances X. Frei. "Are Self-Service Customers Satisfied Or Stuck?" *Production and Operations Management* 19, no. 6 (2010): 679–697.

**Buell, Ryan W.** and Michael I. Norton. "The Labor Illusion: How Operational Transparency Increases Perceived Value." *Management Science* (2011).

**Buell, Ryan W.**, Dennis Campbell, and Frances X. Frei. "How do Incumbents Fare in the Face of Increased Service Competition?" Harvard Business School Working Paper 11-084, February 2011.

**Chai, Sen** and Lee Fleming. "Emergence of Scientific Breakthroughs: A Case Study of RNA Interference." Working Paper, January 2011.

**Craig, Nathan**, Nicole DeHoratius, and Ananth Ramman. "The Impact of Supply Learning on Customer Demand: Model and Estimation Methodology." Harvard Business School Working Paper 11-034, September 2010.

**Jira, Chonnikarn**, David M. Waguespack, and Lee Fleming. "Human Capital, Social Capital and Effective Leadership in Open Innovation Communities." Working Paper, May 2010.

To set service levels, firms must understand how changes in service affect customer demand. Supply learning is a process whereby customers use past supplier performance to build beliefs about supplier capabilities and hence about future supplier performance. This paper presents a multi-period model of service level competition among suppliers selling substitutable products to a customer that engages in supply learning. We observe how a supplier's service level performance molds a customer's beliefs as well as how a customer's beliefs affect its order quantities. We identify two dimensions of supplier performance: consistency, the probability that a supplier delivers in the current period conditional on availability in the prior period, and recovery, the probability that a supplier delivers in the current period conditional on a stockout in the prior period. We also provide a method for estimating the impact of changes in supplier performance along these two dimensions on customer demand. Using data from Hugo Boss, a manufacturer of branded apparel, we find increases in consistency and recovery to be associated with increases in orders from Hugo Boss's retailer customers.

### ABSTRACT

**Buell, Ryan W.** and Michael I. Norton. "The Labor Illusion: How Operational Transparency Increases Perceived Value." *Management Science* (2011).

A ubiquitous feature of even the fastest self-service technology transactions is the wait. Conventional wisdom and operations theory suggests that the longer people wait, the less satisfied they become; we demonstrate that due to what we term the labor illusion, when websites engage in operational transparency by signaling that they are exerting effort, people can actually prefer websites with longer waits to those that return instantaneous results—even when those results are identical. In five experiments that simulate service experiences in the domains of online travel and online dating, we demonstrate the impact of the labor illusion on service value perceptions, demonstrate that perceptions of service provider effort induce feelings of reciprocity which together mediate the link between operational transparency and increased valuation, and explore boundary conditions and alternative explanations.

### ABSTRACT

**Craig, Nathan**, Nicole DeHoratius, and Ananth Ramman. "The Impact of Supply Learning on Customer Demand: Model and Estimation Methodology." Harvard Business School Working Paper 11-034, September 2010.

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