



THE HENRY CROWN INSTITUTE OF BUSINESS RESEARCH IN ISRAEL

RESEARCH CATALOG

**PUBLICATIONS
(Including Abstracts)**

January-December 2019

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- *Finance and Accounting*
- *General and International Management*
- *Managerial Economics*
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- *Operations Strategy and Sustainability Management*
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- *Strategy, Innovation and Entrepreneurship*
- *Management of Technology and Information*
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HC-IBRI SERIES IN FINANCE AND ACCOUNTING

WORKING PAPERS

7/2019

א. וואהל ו- מ. סמואל

A. Wohl and M. Samuel

הערכה של השקעות מנוהלות: קופות גמל וקרנות השתלמות, 17 עמודים
Evaluation of managed investments: Pension funds and advanced study funds, 17 pp. (in Hebrew)

The article reviews measures for the examination of managed investments and implements these measures for provident funds (pension funds and advanced study funds) in Israel in 2007-2018 using monthly returns. The first set of measures is related to risks: standard deviation of returns, betas vs. various securities indices, as well as return variance that is not explained by various securities indices (specific variance). We divide the sample period into four sub-periods and find high persistence in risk measures between subsequent sub-periods. For example, the correlation between return standard deviation in subsequent sub-periods is 0.9. The second set of indicators relates to return level: accumulated return, average monthly return, the Sharpe measure (which is built from the series of returns minus the interest rate and divides the average of the series by its standard deviation) and the alpha measure (the fund's average return minus the average return of a benchmark portfolio return which is defined using a regression). In contrast to the risk indices, there is a very low persistence in return level measures. For example, the correlation between alphas in subsequent periods is 0.04. The conclusion is that when choosing provident funds, risk indices can be used to assess future risks. On the other hand, in assessing the level of future returns, in practice it is not possible to rely on future yields. Therefore, it is important to take into account management fees, which affect future returns directly. It should be noted that the empirical examination relates to provident funds, and it is possible that in other types of investments (for example mutual funds) the persistence is different.

4/2019

A. Michel, J. Oded and I. Shaked

Do security breaches matter? The shareholder puzzle, 28 pp.
Forthcoming in *European Financial Management*;
<https://doi.org/10.1111/eufm.12236>.

This article analyzes the effect of computer breaches on publicly traded equities from 2005 to 2017. An event study is performed and breaches analyzed conditioned on whether the breach announcement has been made in the mainstream media or through other channels. We find that in the period prior to the announcement date in the media, the mean abnormal return is negative, reflecting a likely leakage of information. In the period following the announcement date, the mean abnormal return is positive, often more than offsetting the previous declines. The findings have important implications for analysts, portfolio managers, institutional investors, and regulators.

HC-IBRI SERIES IN MANAGERIAL ECONOMICS

WORKING PAPERS

6/2019 S. Markovich and Y. Yehezkel
Group hug: Platform competition with user-groups, 34 pp.

We consider platform competition in the presence of small users and a user group. One platform enjoys a quality advantage and the other benefits from favorable beliefs. We study whether the group mitigates the users' coordination problem – i.e., joining a low-quality platform because they believe that other users would do the same. We find that when the group is sufficiently large to facilitate coordination on the high-quality platform, the group may choose to join the low-quality one. When the group joins the more efficient platform it does not necessarily increase consumer surplus. Specifically, a non-group user benefits from a group with an intermediate size, and prefers a small group over a large group. The utility of a group user is also non-monotonic in the size of the group.

5/2019 Y. Yehezkel
The value of information in dynamic vertical relations, 26 pp.

This paper asks whether a privately informed retailer may have an incentive to share its marketing data with the manufacturer, in a way that would enable the manufacturer to gain ex-post, but non-contractible information. I consider infinitely repeated dynamic vertical relations with adverse selection. In every period, a retailer (an agent) has private information concerning the demand while a manufacturer (the principal) can observe this information only at the end of the period. The paper finds that ex-post information motivates the manufacturer to leave the retailer with higher (lower) one-period profits when the retailer is short-sighted (forward looking).

REPRINTS

- 354 V. Kurtz-David, D. Persitz, R. Webb and D.J. Levy
The neural computation of inconsistent choice behavior,
Nature Communications, 2019; doi.org/10.1038/s41467-019-
09343-2

Humans are often inconsistent (irrational) when choosing among simple bundles of goods, even without any particular changes to framing or context. However, the neural computations that give rise to such inconsistencies are still unknown. Similar to sensory perception and motor output, we propose that a substantial component of inconsistent behavior is due to variability in the neural computation of value. Here, we develop a novel index that measures the severity of inconsistency of each choice, enabling us to directly trace its neural correlates. We find that the BOLD signal in the vmPFC, ACC, and PCC is correlated with the severity of inconsistency on each trial and with the subjective value of the chosen alternative. This suggests that deviations from rational choice arise in the regions responsible for value computation. We offer a computational model of how variability in value computation is a source of inconsistent choices.

HC-IBRI SERIES IN MARKETING

REPRINTS

- 354 V. Kurtz-David, D. Persitz, R. Webb and D.J. Levy
The neural computation of inconsistent choice behavior,
Nature Communications, 2019; doi.org/10.1038/s41467-019-09343-2

Humans are often inconsistent (irrational) when choosing among simple bundles of goods, even without any particular changes to framing or context. However, the neural computations that give rise to such inconsistencies are still unknown. Similar to sensory perception and motor output, we propose that a substantial component of inconsistent behavior is due to variability in the neural computation of value. Here, we develop a novel index that measures the severity of inconsistency of each choice, enabling us to directly trace its neural correlates. We find that the BOLD signal in the vmPFC, ACC, and PCC is correlated with the severity of inconsistency on each trial and with the subjective value of the chosen alternative. This suggests that deviations from rational choice arise in the regions responsible for value computation. We offer a computational model of how variability in value computation is a source of inconsistent choices.

- 353 B. Torrez, C. Wakslak and E. Amit
Dynamic distance: Use of visual and verbal means of communication as social signals, *Journal of Experimental and Social Psychology*, 85, 2019

Across seven studies, we investigated how people's motivation to signal a proximity or distance orientation affects their choice of visual versus verbal means of communication. To explore this question we asked people to communicate using visual or verbal means of representation within diverse contexts (friendship: Studies 1a-1b, 4, and 5, workplace interactions: Studies 2a-2b, and professional websites: Study 3). Across all studies we found that people prefer visual (versus verbal) means of communication when aiming to

signal a proximity rather than distance orientation towards the recipient of the message. More broadly, we suggest that people are active agents who use different mediums in a strategic way (conscious or not) in order to dynamically influence distance: visual representations are used to signal preference to reduce distance, and verbal representations to signal preference to increase distance.

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J.J. Lee, M. Ong, B. Parmar and E. Amit

Lay theories of effortful honesty: Does the honesty-effort association justify making a dishonest decision?, *Journal of Applied Psychology*, 104(5), 659-677, 2019

Are our moral decisions and actions influenced by our beliefs about how much effort it takes to do the right thing? We hypothesized that the belief that honesty is effortful predicts subsequent dishonest behavior because it facilitates one's ability to justify such actions. In Study 1 (N = 210), we developed an implicit measure of people's beliefs about whether honesty is effortful, and we found that this lay theory predicts dishonesty. In Study 2 (N = 339), we experimentally manipulated individuals' lay theories about honesty and effort and found that an individual's lay theory that honesty is effortful increased subsequent dishonesty. In Study 3, we manipulated (Study 3a; N = 294) and measured (Study 3b; N = 153) lay theories, and then manipulated the strength of situational force that encourages dishonesty, and found that an individual's lay theory influences subsequent dishonesty only in a weak situation, where individuals have more agency to interpret the situation. This research provides novel insights into how our lay theories linking honesty and effort can help us rationalize our dishonesty, independent of whether a particular moral decision requires effort or not.

351

E. Amit, S. Rim, G. Halbeisend, U. Cohen Priva, E. Stephane and Y. Trope

Distance-dependent memory for pictures and words, *Journal of Memory and Language*, 105, 119-130, 2019

Three experiments explored the effect of medium of presentation (pictures, words) and psychological distance (proximal, distal) on episodic memory. In particular, we

predicted that memory would be better for congruent combinations of medium and distance (i.e., pictures of psychologically proximal entities and verbal labels of psychologically distal entities) than incongruent combinations (i.e., pictures of psychologically distal entities and verbal labels of psychologically proximal entities). Our results support this hypothesis. In Experiments 1 and 2, recall was better when medium and temporal distance were congruent than not. In Experiment 3 people recognition was better when medium and spatial distance were congruent than not. These findings suggest that the decay of memory for details over time is a specific case of a broader principle that governs our memory system and is based on psychological distance between the individual and the target entity. More broadly, these results speak to the growing literature, which suggests that one of the major roles of memory is prospection. Within this framing, our findings suggest that the memory system serves prospection using qualitatively different information processing devices, depending on the psychological distance of the target from the individual.

HC-IBRI SERIES IN ORGANIZATIONAL BEHAVIOR AND HUMAN RESOURCES

WORKING PAPERS

- 3/2019 A. Carmeli, A. Dothan and D. K. Boojihawon
Resilience of sustainability-oriented and financially-driven organizations, forthcoming in *Business Strategy and the Environment*; <https://doi.org/10.1002/bse.2355>, 16 pp.

To answer key questions concerning how negative and positive financial performance gaps motivate organizations to build more resilient systems, we develop a conceptual process model to reveal the process by which financially and sustainability-driven organizations can translate these negative and positive financial performance gaps into organizational resilience. We specify the different modes of search behaviors that these organizations pursue when encountering negative and positive financial performance gaps. We then expand on the group engagement model to theorize that vicarious search is likely to encourage limiting behaviors, whereas internal search is likely to foster promotion behaviors. Finally, we explain how both promoting and limiting behaviors can be helpful in improving organizational resilience. In this way, we hope to advance research that connects and integrates relatively disparate realms and, more specifically, to contribute to the sustainability, resilience, and performance feedback literatures.

- 2/2019 Y. Ganzach
Wages, mental abilities and assessments in large scale international surveys: Still not much more than g, 33 pp.

We examine the role of General Mental Ability (GMA or g), versus specific abilities, in predicting wages among 69,901 participants from 19 countries in the Programme for International Assessment of Adult Competencies (PIAAC). We define GMA as the first principal component in a battery of three ability tests, and specific abilities as the low order components. Our initial results – a difference of 52%, between

a g only model and a g + specific abilities model (R2s of .061 and .093, respectively) – are considerably different from earlier results suggesting that "there is not much more than g" in predicting performance. However, further analyses show that this difference is reduced to 0.5% when crucial non-cognitive individual differences (age and sex) are controlled for (R2s of .0763 and .0767, respectively). Path models of the relationships between individual differences, specific abilities, GMA and wage shed light on these results. Implications for the understanding of the relationship between mental abilities and wage, and for the understanding of cognitive test scores as representing various skills versus general ability, are discussed.

1/2019

Y. Ganzach

The effect of the judge's condition on the judgment of others' well-being, 62 pp.

We study the effect of subjects' conditions (e.g., their health or income) on their judgments of the well-being of target people (e.g., assessments of targets' health difficulties or their income satisfaction) based on information about the conditions of the targets (e.g., targets' health or income). We find that these judgments are affected by both assimilation and contrast. A model of similarity between the condition of the subject and the target explains these findings. Implications for the study of social perception and the measurement of well-being are discussed.

REPRINTS

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T. O. Weber, O. Weisel and S. Gächter

Dispositional free riders do not free ride on punishment,
Nature Communications, 9, 2390, 2018

<https://doi.org/10.1038/s41467-018-04775-8>

Strong reciprocity explains prosocial cooperation by the presence of individuals who incur costs to help those who helped them ('strong positive reciprocity') and to punish those who wronged them ('strong negative reciprocity'). Theories of social preferences predict that in contrast to 'strong reciprocators', self-regarding people cooperate and punish

only if there are sufficient future benefits. Here, we test this prediction in a two-stage design. First, participants are classified according to their disposition towards strong positive reciprocity as either dispositional conditional cooperators (DCC) or dispositional free riders (DFR). Participants then play a one-shot public goods game, either with or without punishment. As expected, DFR cooperate only when punishment is possible, whereas DCC cooperate without punishment. Surprisingly, dispositions towards strong positive reciprocity are unrelated to strong negative reciprocity: punishment by DCC and DFR is practically identical. The 'burden of cooperation' is thus carried by a larger set of individuals than previously assumed.

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M. Kurschilgen, A. Morell and O. Weisel

Internal conflict, market uniformity, and transparency in price competition between teams, *Journal of Economic Behavior & Organization*, 144, 121-132, 2017

The way profits are divided within successful teams imposes different degrees of internal conflict. We experimentally examine how the level of internal conflict, and whether such conflict is transparent to other teams, affects teams' ability to compete vis-à-vis each other, and, consequently, market outcomes. Participants took part in a repeated Bertrand duopoly game between three-player teams which had either the same or different levels of internal conflict (uniform vs. mixed). Profit division was either private-pay (high conflict; each member received her own asking price) or equal-pay (low conflict; profits were divided equally). We find that internal conflict leads to (tacit) coordination on high prices in uniform private-pay duopolies, but places private-pay teams at a competitive disadvantage in mixed duopolies. Competition is softened by transparency in uniform markets, but intensified in mixed markets. We propose an explanation of the results and discuss implications for managers and policy makers.

I. Soraperra, O. Weisel, R. Zultan, S. Kochavi, M. Leib, H. Shalev and S. Shalvi
The bad consequences of teamwork, *Economics Letters*, 160, 12-15, 2017

People are rather dishonest when working on collaborative tasks. We experimentally study whether this is driven by the collaborative situation or by mere exposure to dishonest norms. In the collaborative treatment, two participants in a pair receive a payoff (equal to the reported outcome) only if both report the same die-roll outcome. In the norm exposure treatment, participants receive the same information regarding their partner's action as in the collaborative treatment, but receive payoffs based only on their own reports. We find that average dishonesty is similarly high with and without collaboration, but the frequency of dyads in which both players are honest is lower in collaboration than in the norm exposure setting.

HC-IBRI SERIES IN MANAGEMENT OF TECHNOLOGY AND INFORMATION

WORKING PAPERS

8/2019 S. Bar-Gill, Y. Inbar and S. Reichman
The impact of social vs. non-social referral sources on online news consumption, 10 pp.

As news consumption shifts online, referring channels assume a growing role in the market for online news, creating new challenges and opportunities for news organizations. This research combines field and lab experiments, and analysis of large-scale clickstream data, to study the effects of social versus non-social referral sources on news consumption on a news outlet's website. We propose that referring channels create a new type of priming effect, denoted the referral effect, as unique features of the referring channel affect user behavior in a subsequent news visit. We find that social referral effects manifest as more focused reading – visits with fewer articles, shorter durations, yet higher reading completion rates – compared to non-social referrals. We further find lower sharing rates following social media referrals, likely due to a lower perceived novelty to peers of content discovered via social channels. The results provide insights applicable to news outlets' social media strategies.

The Henry Crown Institute of Business Research in Israel

Research Director: Professor Dov Te'eni

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