Recent findings on AI and decision-making, social movements’ impact, the consequences of volatile fiscal policies, and what’s behind anaemic productivity growth in the US and Europe.

New papers published by INSEAD professors suggest gains from AI could be undermined by managers, perhaps because they have to consider wider objectives beyond measurable results. Another finding pertains to social movements on a global scale, and how they may turn consumers off specific products.

Other research cover macroeconomics. One paper examines the underlying causes of the long-term slowdown in productivity growth in advanced economies; the other looks at fiscal policies around the world – and uncovers the impact of volatile policies on economic growth.

1. Managers often ignore AI recommendations
Firms are increasingly investing in algorithms to improve decision-making but it’s unclear how well these investments work. INSEAD’s Hyunjin Kim and her colleagues* examine this issue in the real-world context of restaurant inspections in the United States. They found that algorithms, even simple ones, can significantly improve predictions of restaurants with health code violations as compared to human judgement. Yet most inspectors chose to conduct checks on restaurants that they prioritised versus those identified by algorithms.

The study suggests that managers’ discretion sometimes undermines potential gains from algorithms. Hence, organisations should carefully consider how to integrate AI into their decision-making processes to maximise the benefits.

*Edward Glaeser, Harvard University; Andrew Hillis, independent scholar; and Scott Duke Kominers and Michael Luca, Harvard Business School.

Read the full paper

2. The influence of social movements on consumer preferences

In a multinational study, INSEAD’s David Dubois and Frédéric Godart, together with Clément Bellet from Erasmus University Rotterdam, show that social movements like #MeToo don’t only challenge existing norms and identities – they also change what consumers buy.

The researchers analysed sales data on women’s footwear at a leading fashion retailer in 32 countries from January 2017 to December 2018. They found that demand for shoes conforming to female stereotypes fell substantially six weeks after the emergence of the #MeToo movement against sexual harassment. What’s more, the decline was steeper in the countries most exposed to the movement via mass media.

The study flags how social movements can impact firms even when they are not directly targeted. Firms should think of how to leverage and respond to global identity dynamics, including by adjusting their product offerings and supply.

Read the full paper
3. Volatile fiscal policies harm economic growth

Many factors contribute to the income gap between emerging and advanced economies. One of them, as INSEAD’s Antonio Fatás and his colleagues* show, may be volatile fiscal policies, or the use of government spending and taxation to influence the economy.

The researchers analysed a large sample of emerging markets and developing economies (EMDEs) and commodity exporters between 1990 and 2021. They found that fiscal policy was more volatile in EMDEs than in advanced economies, and in commodity exporters relative to non-commodity exporters. In fact, fiscal policy volatility can explain 8 percent of the income gap between the EMDEs and advanced economies over the 30-year period. The analysis suggests changes in policy, even if underpinned by valid economic or political arguments, should be implemented carefully.

*Francisco Arroyo Marioli and Garima Vasishtha, World Bank’s Prospects Group.

Read the full paper

4. What lies beneath slowing productivity growth in advanced economies

Productivity growth in advanced economies in the US and Europe has slowed since the mid-2000s. This contributes to lacklustre GDP and income growth, as well as budgetary challenges for governments. To craft effective solutions, we need to first identify the cause.

A study by INSEAD’s John Fernald and Dimitrije Rudzic, together with Robert Inklaar from the University of Groningen, attributes the slowdown to stagnating growth in total factor productivity, which refers to how efficiently businesses use labour and capital. They also show that the stagnation was more likely due to a decline in productivity boost from the information and communication technology sector, rather than the shock of the 2007-2009 Great Recession.

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Find article at
https://knowledge.insead.edu/strategy/insead-insights-may-2024-research-picks

About the author(s)

Lily Fang is the Dean of Research and Innovation, the AXA Chaired Professor in Financial Market Risk and a Professor of Finance at INSEAD. In addition, she directs the Finance for Executives course and the INSEAD Fintech Programme.