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# INSEAD Insights: October 2024 Research Picks



By Lily Fang , INSEAD

## **What to know when delegating pricing decisions to agents, how to grow trust within networks and other research findings.**

This month, we round up diverse research findings by INSEAD faculty. Among them is a simple law on long-term value capture by companies. Another study shows how companies can structure sales agents' compensation to maximise revenue.

Other studies explain why some people are more trusted than others within a network. Finally, changes in the environment can affect whether employees act in the interest of their employer vs. advancing their own career goals.

### **1. When do employees pursue organisational vs. career goals?**

As firms grow, they must continually adapt to environmental changes. For instance, delegation can improve employees' access to vital information and achieve quicker response. However, this can also reduce their incentive to use the information for the benefit of their employer. A [study](#) by INSEAD's [Victoria Sevchenko](#) and [Sendil Ethiraj](#) from London Business School

explores the trade-off between information and incentives as the environment evolves.

Using data on the US sell-side security analysts in US banks, the researchers studied the effects of external and internal changes on employees' career concerns. The results show increases in [customer appropriability](#) prompts employees to focus on their career goals relative to firm goals, whereas positive shocks to firm performance have the opposite effect.

[Read the working paper](#)

## **2. What's in the price?**

When speculators contemplate trading on private information, they should consider whether the said information has already been priced in by the market. INSEAD's [Joël Peress](#) and [Daniel Schmidt](#) from HEC Paris [developed a model](#) where speculators assess the novelty of their information based on recent price movements, and market makers are aware that speculators might be trading on stale news.

Using a comprehensive sample of US stocks, the model shows that price increases has a lower impact on buy volume than sell volume because it may result from stale news trading. The reverse is true after price decreases.

[Read the full paper](#)

## **3. How signals in networks explain trust**

Trust between people is often built through direct interactions, but little is known about how trust can be created in networks. [Michael Park](#) and his collaborators\* uncover why some people are more trusted than others.

The researchers show that networks generate signals of trustworthiness based on individuals' positions in the social structure and their networking behaviour. Using data from an online social trading platform with more than 28,000 traders across 38 weeks, they found that traders of higher status in the network and those who expressed positive sentiments in their communication were trusted by more people. Further, the positive effects of network status and the networking behaviour were mutually reinforcing and amplified trust accumulation.

\*[Giuseppe Soda](#) from Bocconi University, [Aks Zaheer](#) and [Mani Subramani](#) from the University of Minnesota, and [Bill McEvily](#) from the University of Toronto

[Read the full paper](#)

#### **4. Maximising revenue when pricing decisions are delegated to agents**

In B2B scenarios and B2C settings such as real estate and automobile, firms tend to delegate pricing decisions to sales agents. Since these agents can gather signals about customers' willingness to pay through their interactions, they should be able to make better pricing decisions.

[Atalay Atasu](#), [Florin Ciocan Dragos](#) and [Antoine Desir](#) studied the underlying [principal-agent problem](#) when agents have the power to set the price. They developed a model that captures how the agents' pricing decision depends on their individual efforts to learn, as well as the contract offered by the company to induce desired learning and pricing behaviour. This work could inform companies to better manage revenue by optimising agents' compensation structure to maximise their payoffs.

[Read the full paper](#)

#### **5. A simple law for the distribution of long-term profit**

[Phebo Wibbens](#) reports the discovery of a simple law governing the distribution of long-term value capture of companies. It applies across different industries, geographies and time periods.

It correctly describes, for instance, that fewer than 1 percent of all firms in the data set generated 73 percent of the total long-term profit. Its distributional parameters provide a novel and precise description of differences across settings in economic outcomes, such as the rise of "superstars". More broadly, the law's discovery raises profound questions relating to competitive strategy, evolutionary path dependence, the structure of technological opportunity and social inequality.

[Read the full paper](#)

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