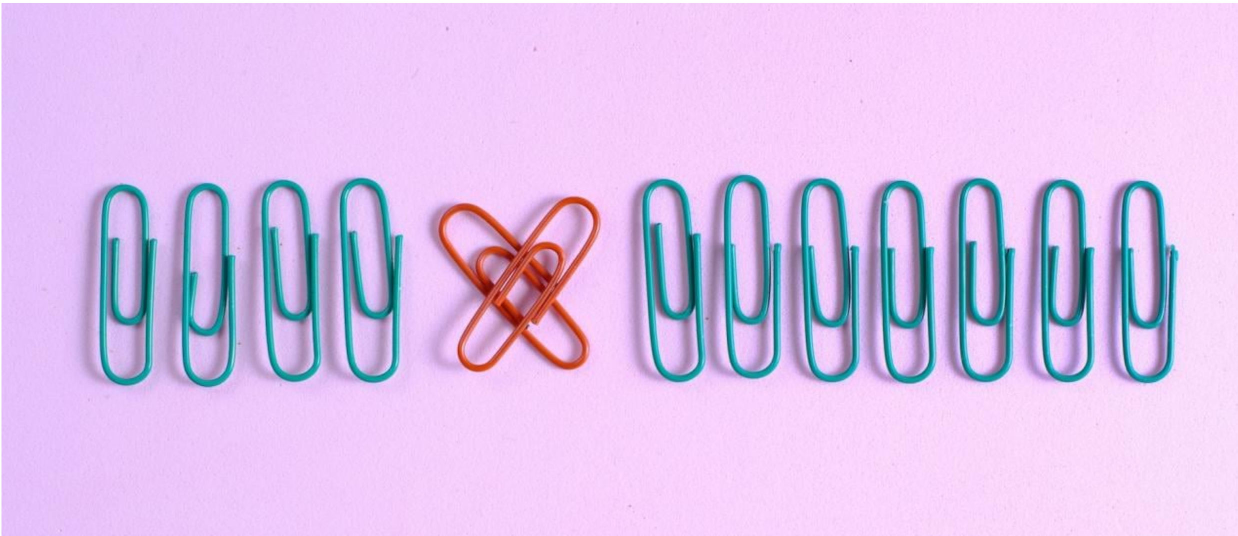
INSEAD Insights: November 2024 Research Picks



By Lily Fang , INSEAD

New tax collection strategies, mitigating AI risks in healthcare, the luck of CEOs and other research findings.

Diverse research findings by INSEAD faculty this month include a new strategy that could help improve tax collection and a way of improving the safety and reliability of AI in healthcare. Other research looks at how taking part in standard-setting organisations (SSOs) can help technology companies get better at forecasting.

Another study examines why IPOs featuring at least one female director might have been underpriced. Finally, new research explores how CEOs might be exploiting random windfalls to pay themselves more.

1. Using divide-and-conquer to improve tax collection

Limited tax enforcement capabilities can lead to high tax delinquency, which then further undermines the impact of enforcement threats. New **research** by INSEAD's **Lucia Del Carpio** and her collaborators* investigated how to break this cycle of non-compliance by applying a "divide-and-conquer" strategy.

They propose a new tax collection strategy they call Prioritized Iterative Enforcement (PIE). PIE involves targeting taxpayers based on the potential return for enforcement effort and issuing threats in small batches to maintain credibility. A real-world experiment in Lima, Peru, showed that PIE could increase tax revenue by about 10%.

***Samuel Kapon** from the University of California and **Sylvain Chassang** from Princeton University.

Read the full paper

2. Algorithmovigilance, lessons from pharmacovigilance
AI is increasingly used in a range of high-risk fields including healthcare, but there's always the possibility for post-deployment issues. To address this threat, a new paper by INSEAD’s **Theodoros Evgeniou** and his co-authors* suggests that we should learn from pharmacovigilance, a well-established and robust system used to monitor drug safety in the real world.

They argue that by adapting pharmacovigilance methods we can better monitor AI systems and respond to potential adverse events, improving the safety and reliability of AI in healthcare and other sectors.

***Alan Balendran**, **Mehdi Benchoufi** and **Philippe Ravaud** from Université Paris Cité.

Read the full paper

3. Co-opetition and the firm’s information environment

Technology companies often collaborate with rivals in standard-setting organisations (SSOs). This involves sharing proprietary information to develop standards for new industry-wide technologies such as Wi-Fi and

Bluetooth.

A new study by INSEAD’s **Thomas Keusch** and his collaborators* shows that taking part in SSOs can improve a company's ability to forecast future sales as it gives them access to valuable information about their competitors and the industry as a whole. The paper found that the benefit is particularly significant when companies exchange more information with direct competitors and larger firms, when forecasting is challenging and when forecasts are made over longer periods of time.

***Brian Bushee** from The Wharton School and **Jessica Kim-Gina** from the UCLA Anderson School of Management.

Read the full paper

4. IPO price formation and board gender diversity

A new paper by **Theo Vermaelen** and his co-authors* examines the impact of female directors on the pricing of US initial public offerings (IPOs) from 2000 to 2019. They found that IPOs with at least one female director were significantly underpriced. This effect was most distinct after 2010, when there was increased pressure for board diversity.

However, the authors also observed that this underpricing began to drop in recent years, coinciding with the timing of the diversity campaigns of BlackRock, State Street and Vanguard. This suggests that investor demand for board diversity wasn't fully reflected in IPO pricing until it was widely publicised by major investment firms.

***Raghavendra Rau** from Cambridge Judge Business School and **Jason Sandvik** from the Eller College of Management.

Read the full paper

5. Are CEOs rewarded for luck? Evidence from corporate tax windfalls

Is CEO pay based on luck or merit? Traditional theory suggests that CEOs should be rewarded for performance, not for random windfalls. However, some argue that weakly monitored CEOs will exploit such opportunities for personal gain.

A study by **Martina Andreani** from INSEAD and her co-authors* looked at how CEOs were compensated for the one-time tax benefits and losses that resulted from the 2017 USA Tax Cuts and Jobs Act. They found that CEOs who were not subject to strong pay scrutiny were rewarded for tax windfalls but not penalised for tax losses, suggesting that they may be taking advantage of their position.

***Atif Ellahie** from University of Utah and **Lakshmanan Shivakumar** from London Business School.

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