LER 545: Economics of Human Resources, Spring 2021

(Crosslisted as Human Resource Education 534)
Thursdays, 8 am to 10:50 am
Syllabus Version: 1/21/2021 (check Compass for latest version)

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COURSE DESCRIPTION: Human resource management requires making many decisions with only limited information: Which applicant should be hired? Should the firm promote an internal candidate or hire an outside applicant?   How can the manager encourage the worker to do her best work, on the tasks that are most valuable to the firm? How can a firm tighten its belt during tough times while maintaining worker morale and productivity? While many managers solve these problems using gut instinct (typically some combination of experience and personal preference) in this class you will learn how to recognize simple models of human behavior and apply them to these and other human resource problems.

The course begins by introducing foundational microeconomic concepts to form a solid economic basis for the course. We will then move on to innovations from the past several decades across a variety of economic fields (including personnel economics, information economics, contract theory, and organizational economics) to inform our study of common issues within human resource management.

An important component of the class will be learning how to practice *evidence-based decision-making*. This will be two pronged: first, you will learn how to evaluate the quality of evidence available in the literature. If other firms have already experimented with the policy you are considering, you will be able to save time and money by learning from others' experiences. Second, we will focus on the conceptual basis for connecting HR decision-making to HR data analytics. At the end of the semester, you will have the opportunity to apply your knowledge in a hands-on data analytics project using Tableau.

COURSE FORMAT: Due to the Covid-19 pandemic, this course will be entirely online. Each week will consist of recorded lectures and a live class session to discuss materials and allow for student presentations. The live session will be on zoom on Thursdays at 2 pm, check Compass for the link.

PREREQUISITES: LER 593 or equivalent statistics course. If you have not taken LER 593, please contact me to discuss your preparation.

DISTRIBUTION REQUIREMENT: This course fulfills the "Labor Markets and Employment" distribution requirement for the LER master's program.

READINGS: The first few lectures will be based on the CORE *The Economy* textbook. This textbook is available for free online at the following link: https://www.core-econ.org/project/core-the-economy/

You will be required to purchase a digital coursepack from Harvard Business School Publishing, which contains many of the cases and readings. This will cost about $34. The link will be available on Compass. Additional readings will draw from journal articles, book excerpts, and lecture notes, all of which will be linked to on Compass. For your reference, the texts these are drawn from are as follows:

Strategic Human Resources: Frameworks for General Managers, Baron and Kreps (1999)

Hard Facts, Dangerous Half-Truths and Total Nonsense: Profiting from Evidence-Based Management, Pfeffer and Sutton (2006)

Labor Economics: Introduction to Classic and the New Labor Economics, Laing (2011).

The Modern Firm by John Roberts (2004)

GRADES: Grades are determined by the following rubric:
Exam: 20%
Homework: 25% (lowest score dropped)
Executive Summaries: 25% (lowest score dropped)
Data Analytics Project: 20%
Participation: 10%

Each portion of the grade is discussed in detail below.

EXAM: There will be one midterm exam, which covers the material from the first module of the class (Econ 101).

DATA ANALYTICS PROJECT: You will be provided HR data and will work in small groups to analyze the data using Tableau. More details will be provided later in the semester.

HOMEWORKS: Each week there will be a homework posted on the Compass website. This will consist of a mix of problem solving questions from material you learned the previous week and short answer questions that cover the current week's material. These homeworks are due by the start of the class period. Late homeworks will not be accepted, however one missed homework can be used as the dropped score. The assignments will be available on Compass at least a week in advance.

PARTICIPATION AND IN-CLASS ASSIGNMENTS

Participation will be graded based on participating in the live class sessions and completing short comprehension quizzes after watching the recorded lectures, as well as other opportunities throughout the term.

EXECUTIVE SUMMARIES: The goal of these case summaries is to take a clear position on an issue, support your position, and note any caveats or potential problems. Some administrative parameters:

- I will assign you to teams of 3 to 4 people, which will remain the same throughout the term. I will post the team assignments on Compass after the first class.
- There are 5 cases for ES, all from the second half of the class (Money Cashflow, SG Cowen, Motorola, Safelite, and Nordstrom). The lowest case score will be dropped.
- The summary should consist of five to seven slides.
- Due date is 24 hours before the start of class, e.g. Wednesdays at 2 pm. Designate one team member to upload the presentation on Compass. Late work will not be accepted.

Topic: The question for each write-up is labelled "*ES Question*" in the schedule for that class date.

Format: The presentation should consist of five parts: 1. Summary/Recommendation, 2. Supporting argument, 3. Supporting evidence, 4. Caveats and potential problems, 5. Assessment Plan. Your first slide must start with a one-sentence summary that states your basic position. The sentence should be as concise

as possible, shorter is better. The rest of the presentation argues why that position is correct. In particular, you should cite at least one piece of evidence from the reading (or your own research) that supports your recommendation. Next, you should list concisely three or four caveats or potential problems with your recommendation. If possible, you should include an explanation of how the firm can recognize if this problem has occurred, and ideally a recommendation for how to solve the problem. Finally, end with a slide explaining how the organization could evaluate the decision, including what data you would collect and how you would analyze it. See below for a (partial) example.

(Slide 1)
Team: Jennifer Jones, Amanda Lee, and Michael Smith

Executive summary on 'Acme Inc.'
(Slide 2)

Summary

This company should re-instate the work-from-home program.

(Slide 3)

Argument

There are three reasons why the program should be re-instated:
1. x
2. x
3. Reduced turnover will lead to quality improvements and cost reductions for the firm.

(Slide 4)

Evidence

In the Bloom et al. QJE article, the authors find that … which applies to this case because…

(Slide 5)

Issues and caveats
- Workers may work less hard when given the opportunity to work from home. This will be evident in the weekly performance data, discussed below. If this becomes a problem, the firm can require workers to meet certain performance targets to qualify for work-from-home.
- X
- Y

(Slide 6)

Assessment Plan

Acme should roll out the policy in the Western division first. By collecting weekly performance data and … yyy … will allow the firm to evaluate whether or not the policy is successful.

COURSE SCHEDULE

Week 1: January 28th. Introduction, Course Overview

Week 2: February 4th. Econ 101: HR Management During Recessions

READING:	Honeywell Case (HBS Coursepack)

Week 3: February 11th. Econ 101: Choice and Firms

READING:	CORE Chapter 3 CORE Chapter 6

Week 4: February 18th. Econ 101: Firms and Markets

READING:	CORE Chapter 7 CORE Chapter 8

Week 5: February 25th. Econ 101: The Labor Market

READING:	CORE Chapter 9

Week 6: March 4th. Evidence-Based Human Resources

CASE:	Work from home at Yahoo and CTrip: (3 articles, all on Compass) Bloom et al, "Does Working from Home Work? Evidence from a Chinese Experiment", Quarterly Journal of Economics. Pages 165-173 are required, the rest of the article is optional. (link on Compass)
READING:	"Management Half-Truth and Nonsense: How to Practice Evidence-Based Management," Pfeffer and Sutton (2006) (HBS coursepack) Re-familiarize yourself with the following statistical concepts: *sample size, hypothesis testing, statistical significance, correlation versus causation, external validity,* and *experimental design.*

Week 7: March 11th. MIDTERM.

March 18th NO CLASS

Week 8: March 25th. Data Analytics I

CASE:	Money Cash Flow, Inc. (In HBS coursepack) ES Question: *What indicators should Tony Martel put into a dashboard for the CEO? How can this help the turnover problem?*
READING:	An evidence-based review of HR Analytics. By: Marler, Janet H.; Boudreau, John W. *International Journal of Human Resource Management.* Jan 2017 (link on compass)

Week 9: April 1ˢᵗ. Hiring and Recruitment.

CASE:	SG Cowen: New Recruits (HBS 9-402-028) *ES Question: How could SG Cowen modify the recruitment process to improve the quality of its labor force?*
READING:	Laing, Ch 13 (on Compass).

Week 10: April 8ᵗʰ. Training and Human Capital.

CASE:	Motorola U: When Training Becomes an Education (Harvard Business Review, July-August 1990) (In HBS coursepack) *ES Question: Should Motorola continue this program into the 1990s? If so, how?*
READING:	Baron and Kreps Ch 15, Training (on Compass).

Week 11: April 15ᵗʰ. Motivation I.

CASE:	Performance Pay at Safelite Auto Glass (A) (HBS 9-800-291) *ES Question: How should Safelite change its compensation policy?*
READING:	Roberts Ch 4, pages 118-140 (On Compass). Lecture Note, Incentives (on Compass).

Week 12: April 22ⁿᵈ. Motivation II.

CASE:	Nordstrom: Dissension in the Ranks? (A) (HBS 9-191-002) *ES Question: How should Nordstrom compensate its salesforce?*
READING:	Roberts Ch 4, pages 140-160 (on Compass). "Do Financial Incentives Drive Company Performance? An Evidence-Based Approach to Motivation and Rewards" Pfeffer and Sutton (2006). (HBS coursepack)

Week 13: April 29ᵗʰ. Project Presentations and Class Wrap-up