

## LER 545: Economics of Human Resources, Spring 2018

(Crosslisted as Human Resource Education 534)

Thursdays, 11 am to 1:50 pm, 331 Armory

Syllabus Version: 8/15/2018 (check Compass for latest version)

Professor Eliza Forsythe

Email: [eforsyth@illinois.edu](mailto:eforsyth@illinois.edu)

Office hours: by appointment, LER 215

Course website: <https://compass2g.illinois.edu>

**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. In particular, we will focus on 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. In addition, you will learn how to collect the necessary information to evaluate whether or not the policy is successful. In particular, we will discuss the gold standard of randomized control trials (RCTs): long used in medicine and psychology, personnel economists have recently begun running RCTs in firms, using different divisions or locations (or other firms) to evaluate the efficacy of a policy. Although it is not always feasible to run an experiment, you will learn a variety of methods of evaluation that you will be able to draw on throughout your career in human resources and management.

**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:** There is no textbook for this course. 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 \$50. 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)

*The Modern Firm* by John Roberts (2004)

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*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).

Many of the topics in this course are also covered in

*Personnel Economics in Practice*, Lazear and Gibbs (2014) (or previous editions)

which may be used for additional reference.

**GRADES:** Grades are determined by the following rubric:

Exams: 50% (20% midterm, 30% final)

Homework: 10% (lowest score dropped)

Executive Summaries: 25% (lowest score dropped)

Participation: 15%

Each portion of the grade is discussed in detail below.

**EXAMS:** There will be two exams: a mid-term in class on October 11th, and a final exam, during the final class period on December 6<sup>th</sup>. These exams will include a combination of short answer, problem solving, and essay questions. The midterm will cover the first half of the course and the final will be cumulative, but focused primarily on the second half of the course.

**HOMEWORK:** Each week there will be several short answer questions posted on the Compass website. This short assignment will help make sure you have read the reading and understand the key points before you complete your case assignment. These homeworks are due each Monday by 11:59 pm. 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.

**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 nine cases eligible for executive-summary write-ups. All teams must do the first case (SG Cowen). For subsequent cases, you will submit 4 of the 8 remaining cases. The lowest case score will be dropped, which you may choose to use strategically.
- Each team will pitch their proposal to the class twice during the semester.
- Before our second class on September 6th, have one team member submit on Compass your team's preferences for which cases to complete. I will try to honor your requests, but may have to balance the dates to make sure we have enough teams each week.
- The summary should consist of five to seven slides.
- Due date is 24 hours before the start of class, e.g. Wednesdays at 11 am. Designate one team member to upload the presentation on Compass. Late work will not be accepted.

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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. 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.

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**PARTICIPATION AND IN-CLASS ASSIGNMENTS**

You are expected to come to class ready to contribute to class discussions on all readings. Even if it wasn't your week for a case write-up, you are still expected to have read and thought about the case discussion questions which are listed each week in the syllabus and on Compass. Participation will be graded as follows: 1 point for attending class, and 1-2 points for each time you participate in class. If you earn on average 3 points per class (excluding weeks with exams), you will receive a 100% participation score.

**COURSE SCHEDULE**

***Class 1: Thursday, August 30<sup>th</sup>. Introduction, Course Overview.***

***Class 2: Thursday, September 6<sup>th</sup>. Evidence-Based Human Resources.***

<b>CASE:</b>	<p>Work from home at Yahoo and CTrip: (3 articles, all on Compass)</p> <p>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)</p>
<b>READING:</b>	<p>"Management Half-Truth and Nonsense: How to Practice Evidence-Based Management," Pfeffer and Sutton (2006) (HBS coursepack)</p> <p>Re-familiarize yourself with the following statistical concepts: <i>sample size, hypothesis testing, statistical significance, correlation versus causation, external validity, and experimental design.</i></p>
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. Compare Marissa Mayer's 'data-driven' decision to ban WFH to that of CTrip (Bloom et. al article). What problem was Mayer trying to solve? Do you think she solved it? How would you know?</li> <li>2. If Mayer had read the Bloom et al article before making her decision, would it have changed her mind about ending WFH? Should it have?</li> </ol>

***Class 3: Thursday, September 13<sup>th</sup>. Hiring and Recruitment.***

<b>CASE:</b>	<p>SG Cowen: New Recruits (HBS 9-402-028)</p> <p><i>ES Question: How could SG Cowen modify the recruitment process to improve the quality of its labor force?</i></p>
<b>READING:</b>	<p>Laing, Ch 13 (on Compass).</p>
<b>Discussion Questions:</b>	<p>Note: read the Laing chapter first to learn the concepts italicized below.</p> <ol style="list-style-type: none"> <li>1. How do the applicants <i>signal</i> their quality to SG Cowen?</li> <li>2. Do any of SG Cowen's recruitment practices suggest the firm utilizes a <i>screening</i> strategy?</li> <li>3. How well does SG Cowen's recruitment process improve <i>symmetric information</i> about fit?</li> <li>4. If you were on the hiring committee, which two candidates would you choose? Why?</li> </ol>

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**Class 4: Thursday, September 20<sup>th</sup>. Motivation I.**

<b>CASE:</b>	Performance Pay at Safelite Auto Glass (A) (HBS 9-800-291) <i>ES Question: How should Safelite change its compensation policy?</i>
<b>READING:</b>	Roberts Ch 4, pages 118-140 (On Compass). Lecture Note, Incentives (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. How well does the proposed performance pay metric of ‘windshields per week’ relate to the firm’s objective (profit)? How does it relate to the technician’s daily actions? Can you think of a better performance measure?</li> <li>2. What is the relationship between information technology and Safelite’s ability to implement performance pay?</li> <li>3. Can you think of any alternative ways to achieve the goal of more windshields installed per worker? What are the pros and cons of incentive pay vs. alternative methods of motivation?</li> </ol>

**Class 5: Thursday, September 27<sup>th</sup>. Motivation II.**

<b>CASE:</b>	Nordstrom: Dissension in the Ranks? (A) (HBS 9-191-002) <i>ES Question: How should Nordstrom compensate its salesforce?</i>
<b>READING:</b>	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)
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. Which tasks should be included in the SPH calculation?</li> <li>2. Does the SPH incentive system suffer from <i>the multitask problem</i>? Why or why not?</li> <li>3. Is the SPH metric sensitive to <i>gaming</i> by employees?</li> </ol>

**Class 6: Thursday, October 4<sup>th</sup>. Human Capital.**

<b>CASE:</b>	Motorola U: When Training Becomes an Education (Harvard Business Review, July-August 1990) (In HBS coursepack) <i>ES Question: Should Motorola continue this program into the 1990s? If so, how?</i>
<b>READING:</b>	Baron and Kreps Ch 15, Training (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. How does Motorola University relate to the concepts of <i>general</i> and <i>specific human capital</i>? Why is Motorola willing to pay for the training?</li> <li>2. What are the tradeoffs to Motorola between training their workers and hiring workers with better skills to begin with?</li> <li>3. Do you think all employers should offer their workers remedial classes? What characteristics of Motorola during the 1980s are suited to offering this kind of training?</li> </ol>

**Class 7: Thursday, October 11<sup>th</sup>. MIDTERM.**

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**Class 8: Thursday, October 18<sup>th</sup>. Discrimination.**

<b>CASE:</b>	Deloitte & Touche (A): A Hole in the Pipeline (HBS 9-300-012) <i>ES Question: What (if anything) should D&amp;T do about female attrition at the firm?</i>
<b>READING:</b>	Blau and Winkler excerpt from <i>The Economics of Women, Men and Work</i> (2007) (on Compass). Laing Chapter 11 section 5, (on Compass). “Race a Factor in Job Offers for Ex-Convicts,” New York Times (2005) (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. Why did Cook think women were leaving D&amp;T? What was his source of data?</li> <li>2. What were the causes of high turnover for women at D&amp;T as identified by Catalyst?</li> <li>3. Evaluate the way D&amp;T collected evidence about the reasons for high turnover. Did they collect the right information? Can you think of any ways the data collection could have been improved?</li> <li>4. How does inquiring about prior convictions relate to the concept of <i>statistical discrimination</i>?</li> <li>5. What can a firm do to avoid statistical discrimination? Should it do anything?</li> </ol>
<p><b>Before class, complete an Implicit Bias quiz: <a href="https://implicit.harvard.edu/implicit/takeatest.html">https://implicit.harvard.edu/implicit/takeatest.html</a></b>  <b>You may choose whichever quiz you like that is relevant to hiring discrimination (e.g. race, gender, etc). We will discuss implicit biases in class and I will expect you to be familiar with the mechanics of the quiz, but your personal results can remain private.</b></p>	

**Class 9: Thursday, October 25<sup>th</sup>. Strategy.**

<b>CASE:</b>	NUMMI, This American Life (link on Compass). <i>ES Question: Suppose you are Larry Spiegel when he was assigned to transform the Van Nuys plant into the Japanese system. What do you do?</i>
<b>READING:</b>	Roberts pages 34-51 (on Compass). Baron and Kreps Ch 3, pages 38-49 (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. What makes the Toyota production system so difficult to implement?</li> <li>2. Why was GM able to be so successful in earlier decades but struggled in the 80s and beyond? What changed?</li> <li>3. Which parts of the Toyota production system are <i>complementary</i> with each other? Do any of the practices seem to be misaligned? What about for GM?</li> <li>4. What is the significance of the andon cord? How does it represent differences between how Toyota ran the production line and how GM ran their line? What other <i>complementary</i> practices must the firm have in place for the workers to be willing to pull the andon cord?</li> </ol>

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**Class 10: Thursday, November 1<sup>st</sup>. Theory of the Firm.**

<b>CASE:</b>	HCL America (HBS 9-396-030) <i>ES Question: How should Sateesh Lele allocate the remaining work on Telogy's systems integration project: to his in-house team, to HCL engineers working on-site at Telogy, to engineers at HCL facilities in Sunnyvale, or to HCL staff in India?</i>
<b>READING:</b>	Roberts, Ch 3 (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. What are some of the <i>transaction costs</i> that may arise from Telogy's system integration project? Are these costs you identify ameliorated by performing the work in-house?</li> <li>2. How does the ability of Telogy and HCL to write contracts that will be enforced by courts play into Telogy's decision whether or not to outsource? How does international contract law affect HCL's competitive advantage?</li> <li>3. How might outsourcing the project to HCL provide 'too strong' of incentives, as discussed by Roberts on page 105?</li> <li>4. How important is <i>coordination</i> to the systems integration project? How does this affect the decision about outsourcing?</li> <li>5. In your opinion, which firm (HCL or Telogy) has a stronger case for <i>complementarities</i> between the system integration project and other activities performed at the firm?</li> </ol>

**Class 11: Thursday, November 8<sup>th</sup>. Culture and Relational Contracting.**

<b>CASE:</b>	The Lincoln Electric Company (HBS 9-376-028). Lincoln Electric's Harsh Lessons from International Expansion (HBR 1999) ( <i>pages 1-7 only</i> ). <i>ES Question: In 1993, with losses mounting in Europe and lines of credit stretched to the limit, CEO Donald Hastings has to make a decision to return the firm to financial solvency. What should he do?</i>
<b>READING:</b>	Lecture Note: Relational Contracting (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. What is the <i>relational contract</i> at Lincoln Electric? What does it mean for management to <i>cooperate</i> or <i>defect</i>? What does it mean for the workers to <i>cooperate</i> or <i>defect</i>?</li> <li>2. Why were the workers uncomfortable about the firm's international expansion?</li> <li>3. Why was Hastings willing to borrow money to pay the bonus in 1992? What do you think would have happened if the Cleveland workers didn't get a bonus that year?</li> <li>4. Why couldn't Lincoln Electric immediately implement their human resource practices (and associated productivity) in the European plants?</li> </ol>

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***Class 12: Thursday, November 15<sup>th</sup>. Task Assignment and Careers.***

<b>CASE:</b>	United Parcel Service (A) (HBS 9-488-016) <i>ES Question: Should UPS continue its policy of only promoting from within, even for IT employees?</i>
<b>READING:</b>	Lecture Note: Task Assignment (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. What are the benefits of strong internal labor markets?</li> <li>2. Interpret promote-from-within policies in the context of <i>relational contracts</i>.</li> <li>3. What are the tradeoffs for UPS for requiring all workers to spend time as package delivery drivers?</li> </ol>

***NO CLASS THURSDAY, NOVEMBER 22<sup>ND</sup> (THANKSGIVING)***

***Class 13: Thursday, November 29<sup>th</sup>. Human Resources over the Business Cycle.***

<b>CASE:</b>	Honeywell and the Great Recession (A) (HBS 9-315-022) <i>Note: this case is not eligible for the executive summaries.</i>
<b>READING:</b>	Barron and Kreps, Chapter 17 Downsizing (on Compass).
<b>Discussion Questions:</b>	<ol style="list-style-type: none"> <li>1. Why did Honeywell have to reduce headcount?</li> <li>2. What are some of the pros and cons between different ways to reduce costs: hiring freezes, layoffs, furloughs, and wage and benefit cuts? Can you think of any other strategies?</li> <li>3. Compare Honeywell to Lincoln Electric, which <i>increased</i> headcount and output to counter losses in Europe. Why did this work for Lincoln Electric? Could it work for other firms?</li> <li>4. Cote is very concerned about shareholder value and the stock price. How does being publicly traded affect a firm's ability to weather a recession?</li> </ol>

***Class 14: Thursday, December 6<sup>th</sup>. FINAL EXAM.***