

LER 545: Economics of Human Resources, Spring 2020

(Crosslisted as Human Resource Education 534)
Thursdays, 11 am to 1:50 pm, LER Room 53
Syllabus Version: 1/20/2020 (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.

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 \$40. 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).

GRADES: Grades are determined by the following rubric:

Exams: 40% (15% midterm, 25% final)

Homework: 10% (lowest score dropped)

Problem Sets: 10%

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 March 5th, and a final exam during the final class period on April 30th. 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.

HOMEWORKS: 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. 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.

PROBLEM SETS: There will be three problem sets. These will allow you to practice the problem solving questions. Details and due dates will be distributed in class.

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 7 cases eligible for executive-summary write-ups. All teams must do the first case (SG Cowen) and the last case (Money Cash Flow Inc). Each group will submit 2 of the remaining 5 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, 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, 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.

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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, January 23. Introduction, Course Overview, Econ 101: Choice

READING:	CORE Chapter 3, sections 3.1 – 3.8
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Class 2: Thursday, January 30. Econ 101: Firms

READING:	CORE Chapter 3 (continued) CORE Chapter 6
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Class 3: Thursday, February 6. Econ 101: Firms and Markets

READING:	CORE Chapter 7 CORE Chapter 8
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Class 4: Thursday, February 13. Econ 101: The Labor Market

READING:	CORE Chapter 9
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Class 5: Thursday, February 20. 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: <i>sample size, hypothesis testing, statistical significance, correlation versus causation, external validity, and experimental design.</i>
Discussion Questions:	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?

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	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?
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Class 6: Thursday, February 27. Hiring and Recruitment.

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

Class 7: Thursday, March 5. MIDTERM.

Class 8: Thursday, March 12. Training and Human Capital.

CASE:	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>
READING:	Baron and Kreps Ch 15, Training (on Compass).
Discussion Questions:	<ol style="list-style-type: none"> 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? 2. What are the tradeoffs to Motorola between training their workers and hiring workers with better skills to begin with? 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?

NO CLASS THURSDAY, March 19 (Spring Break)

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Class 9: Thursday, March 26. Motivation I.

CASE:	Performance Pay at Safelite Auto Glass (A) (HBS 9-800-291) <i>ES Question: How should Safelite change its compensation policy?</i>
READING:	Roberts Ch 4, pages 118-140 (On Compass). Lecture Note, Incentives (on Compass).
Discussion Questions:	<ol style="list-style-type: none"> 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? 2. What is the relationship between information technology and Safelite’s ability to implement performance pay? 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?

Class 10: Thursday, April 2. Motivation II.

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

Class 11: Thursday, April 9. Culture and Relational Contracting.

CASE:	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>
READING:	Lecture Note: Relational Contracting (on Compass).
Discussion Questions:	<ol style="list-style-type: none"> 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>? 2. Why were the workers uncomfortable about the firm’s international expansion? 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? 4. Why couldn’t Lincoln Electric immediately implement their human resource practices (and associated productivity) in the European plants?

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Class 12: Thursday, April 16. HR Strategy and Complementarities.

CASE:	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>
READING:	Roberts pages 34-51 (on Compass). Baron and Kreps Ch 3, pages 38-49 (on Compass).
Discussion Questions:	<ol style="list-style-type: none">1. What makes the Toyota production system so difficult to implement?2. Why was GM able to be so successful in earlier decades but struggled in the 80s and beyond? What changed?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?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?

Class 13: Thursday, April 23. Data Analytics (In class exercise)

CASE:	Money Cash Flow, Inc. (In HBS course pack) <i>ES Question: What top 3 indicators would you want to have on Tony Martel's dashboard?</i> Instead of the usual executive summary format, I would like you to answer the following questions: <ol style="list-style-type: none">1. Explain how the data would be collected (payroll information? Worker surveys?)2. Explain what information you hope this data will convey. How will it affect executive decision-making?3. Discuss potential pitfalls of providing this data to executives.
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Class 14: Thursday, April 30. FINAL EXAM.