

MGMT 440
Human Resources Management
Spring Quarter 2010 Syllabus
Tentative

Section 61

Tuesday, Friday 1:30 – 3:00p.m.

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Office Hours

Monday, Thursday, 1-2 pm

Appointments are welcome and encouraged!

COURSE DESCRIPTION

How to find the right people? How to keep the right people? How to give the right incentives? While the traditional answer to these questions is “it all depends,” we will introduce in this class a simple and powerful approach to give detailed and unambiguous answers to these questions. This approach, sometimes called personnel economics, reflects the most exciting development of modern economics in the past thirty years. It highlights the importance of information and incentive in the modern economy and gives useful insights to a wide range of questions.

Topics in this class include complementarity, signaling, matching, training and human capital, incentive, multitask, efficiency wage, tournaments, relational contract, benefits, and discrimination. Methods developed in this class will be especially helpful to **general managers** and **management consultants** because the success of any modern organizations depend crucially on the quality of talent management.

The only prerequisite of this class is MGMT 431, which all of you should have taken. Since this course is an economic approach to human resources question, we rely heavily on microeconomics tools, so ideally you have also taken MECN 430 (Microeconomic Analysis) but this is not strictly necessary.

There is a small overlap between this class and MGMT 452 (Strategy and Organization). It would be great if we could combine the two courses into a single 20 week course. We don't do that because some students might be more interested in human resources, others more interested in organization. But we think you need both. However, there are some ideas that are absolutely essential to thinking about both human resources and organizations. Because of this, these ideas must be in both courses. So, if you've taken MGMT 452, there are some basic economic ideas here that you've seen before. We'll be developing applications of these ideas in human resources --- these applications will be new to you.

TEACHING METHOD

This course relies on both lectures and case discussion to develop the key learning points of human resources management. Each class will typically start with case discussion, and key concepts that emerge from the case will then be developed by formal lectures. The lecture notes will be posted ahead of each class. To maximize your success of the class, you should read the cases thoroughly, spend time answering the discussion questions, and skim through the lecture notes. There will also be short weekly problem sets to solidify your knowledge. Finally, we will have a few guest speakers to describe how principles covered in the classroom are applied to real business decisions.

WEB PAGE

The class uses Blackboard, Northwestern's course management system. Please let me know if you have not used Blackboard before.

READINGS AND HANDOUTS

This class uses a collection of readings from various sources, including textbooks, academic journals, and the popular press, to provide a broad spectrum of information from which to work. There is one required textbook for the class.

Personnel Economics in Practice, 2nd Edition, by Edward P. Lazear and Michael Gibbs, 2009.

If you prefer, you can instead get

Personnel Economics for Managers, by Edward P. Lazear, 1998.

This book is available at the bookstore and can be purchased online. In addition, you are required to purchase the *Case Packet*, which is available at the bookstore. Additional required readings, supplementary readings, and handouts including overheads and answers to exercises will also be posted on the course web page regularly.

GRADING

Grades will be based on two mid-terms (30%+30%), 5 problem sets (20%), and class participation and discussion questions (20%).

The Midterms (60% = 30%+30%)

There will be two midterms for this class. The first midterm will be given in Week 5 and will count for 30% of the grade. This midterm is open book and there is no time limit. The second midterm will be given in Week 10 and will also count for 30% of the grade. This midterm will be **in class, closed book** and will be 1.5 hours.

The Problem Sets (20%)

There will be 5 problem sets in total. I will post them online, and they are due at the beginning of each class. **Late problem sets will not be accepted.** Each problem set will count as 4% of the

final grade, so together they count 20%. You are welcome and encouraged to work together (no more than 4 persons per group) on the problem sets.

Class Participation and Discussion Questions (20%)

The remaining 20% of your grade is based on class participation and discussion questions

We will discuss one case per week, and there will be a list of preparation questions for (listed on the syllabus) for the case. Your task is to write up short answers to these questions (less than one page per question) yourself and **hand them to me at the beginning of the class.**

CLASSROOM ETIQUETTES

Students are expected to adhere to the general principles of classroom etiquette. These principles ask that students focus their attention on in-class lectures and discussions during class time. In particular, please do not use laptop computers or personal digital assistants during class sessions, and turn cellular telephones off.

COURSE OUTLINE

Week 1

1st Class: 3/30

Topic: Overview of the Class

Nordstrom Case Discussion

Required Reading:

Case: Nordstrom: Dissension in the Ranks? (A)

Michael E. Porter, "What is Strategy?" *Harvard Business Review*, November/December 1996. (Skim)

Discussion Questions (due at the beginning of the class):

- 1: What are the pros and cons of being a "Nordie?"
- 2: Would you want to work at Nordstrom? Would your current or most recent employer want to hire a Nordie?
- 3: Why did Nordstrom's problems, coerced underreporting of hours leading to litigation, arise when they did?

2nd Class: 4/2

Topic: Principal Agent Models/Complementarity

Required Reading:

John Roberts "The Modern Firm" Complementarity Section in Chapter 2, pp 34-51.

Supplementary Reading:

Casey Ichniowski and Kathryn Shaw "Beyond Incentive Pay: Insiders' Estimates of the Value of Complementary Human Resource Management Practices." *Journal of Economic Perspective* Vol 17, No. 1 Winter 2003 pp.155-180.

"Spreading Risk Around Isn't the Answer," *Washington Post*, March 22nd 2008

Week 2

1st Class: 4/6

Topic: Whom to keep and Whom to let go?

Bang for the Buck Principle/Estimating Productivities

Required Reading:

“New Recipe for Cost Savings: Replace Highly Paid Workers,” *Wall Street Journal*, June 11, 2003

“Setting Hiring Standards,” Chapter 1 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “Setting Hiring Standards,” Chapter 2 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

Supplementary Reading:

Michael Lewis “The No-Stats All-Star” *New York Times*, Feb 13th, 2009

2nd Class: 4/9

Topic: Whom to Hire: Lesson 1

Whom to target and how to get them cheap?

Required Reading:

Case: SG Cowen: New Recruits

Supplementary Reading:

Xavier Gabaix and Augustin Landier “Why has CEO Pay Increased So Much?” *Quarterly Journal of Economics*, November 2008, pp 49-100.

David Autor, Frank Levy, and Richard Murnane, “The Skill Content of Recent Technological Change: An Empirical Exploration.” *Quarterly Journal of Economics*, November 2003, pp 1279-1333.

Discussion Questions (due at the beginning of the class):

- 1: Identify the main strength and weakness of each of the four “final” candidates. Which “strength” and which “weakness” do you think carries the most information regarding future job performance? Why?
- 2: How did Cowen determine which schools to target in their recruiting? Could their decision process be improved?

HW #1 Due

Week 3

1st Class: 4/13

Topic: Whom to Hire: Lesson 2

When is it a good idea to poach workers from other firms?

Required Reading:

“Morgan’s Dimon to Rivals: Back off from Hiring Bear Brokers,” *Wall Street Journal* March 24th, 2008

“Managing Turnover,” Chapter 4 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “Raiding Other Firms,” part of Chapter 8 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

Supplementary Readings:

“Barclays Poaches M&A Team from ABN,” *BusinessWeek*, May 14th, 2008.

“Poaching” *The Economist*, April 10th, 2008.

2nd Class: 4/16

Topic: Whom to Hire: Lesson 3

How to avoid getting a Lemon? The Theory of Screening

Required Readings:

“Employment; Bakery’s ‘Open Hiring’ Offers Anyone a Chance,” *New York Times*, November 26th 2006.

“Pay, Your Own Way: Firm Lets Workers Pick Salary --- Big Bonus? None at All? In Throwback to '80s, Employees Make Call.” *Wall Street Journal*, July 7th 2007.

“Screening Job Applicants,” part of Chapter 2 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “Hiring the Right People” Chapter 3 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

HW #2 due at the beginning of the class.

Week 4

1st Class: 4/20

Topic: The Theory of Signaling

To outsource or not to outsource?

Required Reading:

Case: HCL America

“Signalling Productivity,” Part of Chapter 8 in *Personnel Economics*, by Edward P. Lazear, 1998, pp. 196-209

“Signal Failure?” *The Economist*, May 1, 2003.

Discussion Questions:

- 1: Does HCL have any sources of long-run competitive advantage?
- 2: HCL seems concerned about its own rates of attrition. What, if anything, should the firm do about it?
- 3: If you are the CEO of HCL, what type of service would you recommend to your customer and why?

2nd Class: 4/23

Guest Speaker: ERWIN JANUSH FSA, MAAA, EA, MIAA

Topic: Global Staffing Strategy

HW #3 due at the beginning of the class.

Week 5

1st Class: 4/27

Topic: When (and if) to Train your Employees?

The Theory of Human Capital

Required Reading:

“Investment in Skills,” Chapter 3 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “The Theory of Human Capital,” Chapter 6 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

Supplementary Reading:

“Escape Route: Seeking Refuge in an M.B.A. Program,” *Wall Street Journal*, October 14th, 2008

“Idle Hands and Eager Minds,” *Business Week*, November 27th, 2001

“How to Tap Government Grants for Staff Training,” *Wall Street Journal*, April 3rd, 2008

2nd Class: 4/30

Topic: When to Make and When to Buy?

The Theory of Firm Specific Human Capital

Required Reading:

Case: Motorola U.: When Training Becomes and Education

Supplementary Reading:

“Silicon Valley’s hiring! And it’s firing, too,” *Fortune*, June 9, 2003

Discussion Questions:

- 1: Think of Motorola U as a make-or-buy decision. Why is Motorola choosing to “make” more educated employees rather than simply “buying” them?
- 2: How is Motorola earning a return on its \$120 million annual expenditure on training?
- 3: Should Motorola continue this program into the 1990s? If so, how?

Week 6

1st Class: 5/4

Topic: How to Motivate the Workers?

Basic incentive models

Required Readings:

“Rewarding Performance,” Chapter 10 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “Variable Pay of Straight” Chapter 5 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

Supplementary Readings:

Richard Holden, “The Original Management Incentive Schemes,” *Journal of Economic Perspectives* 19 (4), Fall 2005, pp 135-144.

“The Spies Who Come In with the Gold?” *CFO.Com* May 21st, 2008

Midterm #1 Covering Week 1-5 Due at the beginning of class

2nd Class: 5/7

How to avoid unintended consequences?

The Theory of Multitask

Required Readings:

Case: Performance Pay at Safelite Auto Glass

Supplementary Readings:

Steven Kerr, “On the Folly of Rewarding for A while Hoping for B,” *Academy of Management Journal*, 18, 1975, pp769-783.

“Pay Controls Do Not Work at Any Level” *Becker-Posner Blog*, February, 2009

“Teachers Give Poor Grades to Merit Pay,” *The Chicago Tribune*, April 23rd, 2000

“19,000 Kids Seek New Schools,” *The Chicago Tribune*, August 28th, 2003

Discussion Questions:

- 1: What are the benefits and costs of pay-for-performance plans like that proposed by Safelite?
- 2: What can Safelite do to mitigate the costs you identify?

Week 7

1st Class: 5/11

Topic: Job or Career?

Efficiency Wage

Required Reading:

“US Probe Nearly Wipes Out Police in Ford Heights,” *The Chicago Tribune*, October 11, 1996

“NYPD Blues” *The Economist*, April 5th, 2008

Supplementary Readings:

Daniel Raff and Larry Summers: “Did Henry Ford Pay Efficiency Wages?” *Journal of Labor Economics*, Vol. 5, No. 4, S57-86.

2nd Class: 5/14

Topic: How to Divide the Pie?

The Theory of Relative Performance Evaluation

Required Reading:

Case: Brainard, Bennis & Farrell

“Career-Based Incentives,” Chapter 11 in *Personnel Economics in Practice, 2nd Edition*, by Edward P. Lazear and Michael Gibbs, 2009. (Or “Promotions as Motivators” Chapter 9 in *Personnel Economics for Managers*, by Edward P. Lazear, 1998.)

Discussion Questions:

Suppose you are a consultant for Brainard, Bennis & Farrell. Richard Kincaid, Chairman of the Executive Committee, presents you with 9 questions that confront the compensation systems at BBF (see the bottom of page 9). Pick 3 of the 9 questions and give your answers to them.

HW #4 due at the beginning of the class.

Week 8

1st Class: 5/18

Topic: How to Do Good and Do Well?

Relational Contracts and Corporate Culture

Required Reading:

James Stewart, "Taking the Dare," *The New Yorker*, July 26, 1993.

Case: Ben & Jerry's Homemade Ice Cream, Inc: Keeping the Mission(s) Alive

Supplementary Readings:

"Guaranteed Bonuses weren't a Sure Thing" *The Hamilton Spectator*, June 9th 2007

"Compensation at Whole Foods Market" *The CEO's Blog* of John Mackey, November 2nd, 2006.

Discussion Questions:

- 1: What are the benefits of the 5:1 policy? What are the costs?
- 2: The Ben and Jerry's Board of Directors argues that many in corporate American are "over-paid." What do you think they mean by this, and do you agree?
- 3: Should Ben and Jerry continue the policy, adjust to 7:1, or abandon it?

2nd Class: 5/21

Topic: How to Get the Right Information?

The Theory of Career Concern

Required Reading: Lecture Notes on Career Concern

HW #5 due at the beginning of the class.

Week 9

1st Class: 5/25

Topic: Unequal Pay for Equal Work?

The Theory of Discrimination

Required Reading:

Case: Deloitte & Touche (A): A Hole in the Pipeline

Supplementary Readings:

Blau, Francine and Lawrence Khan, "Gender Differences in Pay," *The Journal of Economic Perspectives*, Fall 2000

Discussion Questions:

- 1: What factors are holding women back at this firm?

- 2: Only 10% of Deloitte's candidates for partner are women. What *should* this number be?

- 3: Offer three concrete suggestions for how Deloitte might respond to the Task Force report. Discuss weaknesses of your proposals if any.

2nd Class: 5/28

Guest Speaker: SARA O'REILLY NATIONAL CHIEF OF STAFF, WOMEN'S INITIATIVE AT DELOITTE

Topic: TBA

Week 10

1st Class: 6/1

Topic: How to Use Benefits to Cut Costs?

Theory of Compensating Differentials

Required Reading:

Case: Putnam Investments: Work@Home

Discussion Questions:

- 1: Which employees are allowed to work at home, and why?
- 2: How does the Work@Home program affect productivity for employees who are allowed to telecommute?
- 3: Should Putnam expand the Work@home Program?

2nd Class: 6/4

Midterm # 2 Covering Week 6-9 **Closed Book**