

COMPENSATION, INCENTIVES AND PRODUCTIVITY
ECON 3430 / ILRLE 4430
SPRING 2017

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Office Hours:
Tuesdays 1:30 PM – 4:00 PM
(other times by appointment)

Brief Course Description and Learning Outcomes:

Can it be advantageous to make a risky hire? When should firms pay for employee training and development? How can we leverage psychological and economic benefits in job design? What is the optimal way in which to reward performance?

All of these questions relate to a field of study known as *Personnel Economics*.

Throughout the semester, we will focus on personnel-related business problems using the analytic tools of economic theory. Such problems and topics include recruitment, screening and hiring strategies; compensation and benefits; training, turnover and the theory of human capital; incentive schemes and promotions; layoffs, downsizing and buyouts; teamwork; and internal labor markets.

Upon successful completion of this course, you will:

- Analyze personnel problems and their proposed solutions using economic theory and quantitative tools;
- Assess the impact of environmental factors (information, resources, constraints, decisions and incentives) on personnel outcomes;
- Evaluate – and appropriately balance – the benefits and costs associated with personnel decisions.

Prerequisites:

ILRLE 2400 Economics of Wages and Employment or equivalent

Strong quantitative skills are recommended

Academic Integrity:

Each student in this course is expected to abide by the Cornell University Code of Academic Integrity (<http://cuinfo.cornell.edu/Academic/AIC.html>) and the Campus Code of Conduct (<http://www.dfa.cornell.edu/cms/treasurer/policyoffice/policies/volumes/governance/upload/CC.pdf>) "Absolute integrity is expected of every Cornell student in all academic undertakings. Integrity entails a firm adherence to a set of values, and the values most essential to an academic community are grounded on the concept of honesty with respect to the intellectual efforts of oneself and others." Please read and understand these policies.

Any work submitted by a student in this course will be the student's own. You are permitted – and encouraged – to discuss course materials with your fellow students and work together to develop your understanding of concepts and applications. However, all graded assignments (quizzes, homework assignments, examinations, etc.) are to be completed by each student independently.

Students agree that by taking this course all required assignments and papers may be subject to submission for textual similarity review to Turnitin.com for the detection of plagiarism. All submitted assignments and papers will be included as source documents in the Turnitin.com reference database solely for the purpose of detecting plagiarism of such papers. Use of Turnitin.com service is subject to the Usage Policy posted on the Turnitin.com site.

All course materials – including but not limited to readings, lecture slides and handouts, review sheets, problem sets, and examinations – are intellectual property belonging to the author(s). The buying, selling or (re)posting of any course materials or video or audio recordings of lectures is expressly prohibited; engaging in such behavior constitutes academic misconduct with serious consequences. If you have any questions, please let me know.

Violations of the Cornell Code of Academic Integrity and Cornell's Code of Campus Conduct will be taken seriously. Typically, students are most tempted to violate these codes when they are experiencing difficulties and/or are concerned about their course grade. If you are experiencing difficulties or are concerned to that degree, please reach out and talk to me, your Teaching Assistant, or an academic advisor.

Classroom / Community Responsibilities:

A large part of the academic experience is the challenging of viewpoints and exploring issues from differing perspectives. You are encouraged to express differences of opinion and challenge viewpoints in a mutually respectful manner that opens up dialogue and does not threaten any member of the learning community. Our classroom environment will be a safe place for the

open exchange of ideas by all participants. Each participant is responsible for ensuring that his or her own behavior promotes this.

Additionally, it is important that we take care of ourselves and each other. Please see me if you want to talk about the course or anything else.

Students with Disabilities

Your access in this course is important. Please provide me with your Student Disability Services (SDS) accommodation letter early in the semester so that I have adequate time to arrange your approved academic accommodations. If you need immediate accommodation for equal access, please speak with me after class or send an email message to me (with a cc to sds_cu@cornell.edu). If the need arises for additional accommodations during the semester, please contact SDS.

Course Requirements:

A. Examinations

All students are expected to sit for one preliminary examination and one cumulative final examination. The preliminary exam will take place on **Thursday, March 23rd during the class period**. The date and time of the final examination, as determined by the University, will be announced as soon as possible.

If you have an examination conflict, or a health, personal or other issue, please see me as soon as you learn of this conflict or issue. Unexcused absences from any examination will result in a grade of zero (0) for that examination.

B. Readings, Case Studies and Multimedia Materials

The textbook for this course is Lazear and Gibbs, *Personnel Economics in Practice*, 3rd Edition (Wiley).

When purchasing the textbook for this course, you have several options available. Choose the option that suits you best:

1. Buy a hard copy of the textbook at the Cornell Bookstore;
2. Buy an electronic copy of the textbook through Wiley (<http://www.wiley.com/WileyCDA/WileyTitle/productCd-EHEP003219.html#student>);
3. Rent an electronic copy of the textbook through VitalSource CourseSmart (<http://www.coursesmart.com/9781118206720>).

If you have questions about purchasing or renting the textbook, please see me as soon as possible.

We will also be using a series of case studies. These case studies are available as a course pack from Harvard Business School. For information about course pack contents and purchasing options, please visit our course pack site at <http://cb.hbsp.harvard.edu/cbmp/access/57103217>

Additional case studies, readings and multimedia materials will be provided throughout the semester via Blackboard.

C. Graded Homework Assignments

There will be four (4) graded homework assignments throughout the semester. These assignments will be distributed electronically via the Blackboard website for this course. Assignments are to be submitted by the due date indicated below. *No late homework assignments will be accepted, and no make-up assignments will be available.*

Graded Assignment #1: due by 5:00 PM on Monday, February 27, 2017

Graded Assignment #2: due by 5:00 PM on Wednesday, March 22, 2017

Graded Assignment #3: due by 5:00 PM on Monday, April 24, 2017

Graded Assignment #4: due by 5:00 PM on Monday, May 8, 2017

Course Grade:

At the end of the semester, your final course grade will be calculated as follows:

10% Participation

30% Graded assignments

30% Preliminary exam grade

30% Final exam grade

Letter grades will be assigned based on your final course grade; no letter grades will be assigned to the preliminary exam or graded homework assignments.

Lecture Schedule:

The lecture schedule is given on the following page. All students are expected to read the relevant chapter(s) in the text and any assigned articles and/or case studies prior to lecture. If articles and/or case studies are assigned for a particular lecture, you should come prepared to discuss the article / case in detail.

Lecture Schedule

Date	Topic	Required Reading(s)
January 26	Course Introduction	Lazear & Shaw article
January 31	Setting Hiring Standards	L&G Ch. 1
February 2	Setting Hiring Standards	UPS Case, L&G Ch. 1
February 7	Recruitment	L&G Ch. 2
February 9	Recruitment	Student Resumes Case, L&G Ch. 2
February 14	Investment in Skills	L&G Ch. 3
February 16	Managing Turnover	L&G Ch. 4
February 21	<i>No Class – February Break</i>	
February 23	Managing Turnover	Webster Case, L&G Ch. 4
February 28	Decision Making	L&G Ch. 5
March 2	Decision Making	JPL Case, L&G Ch. 5
March 7	Organizational Structure	L&G Ch. 6
March 9	Job Design	L&G Ch. 7
March 14	Job Design	Sedalia Case, L&G Ch. 7
March 16	Advanced Job Design	L&G Ch. 8
March 21	<i>Review Class</i>	
March 23	<i>Midterm Examination</i>	
March 28	Performance Evaluation	L&G Ch. 9
March 30	Performance Evaluation	Merck Case, L&G Ch. 9
April 4	<i>No Class – Spring Break</i>	
April 6	<i>No Class – Spring Break</i>	
April 11	Rewarding Performance	L&G Ch. 10
April 13	Rewarding Performance	Lincoln Electric Case, L&G Ch. 10
April 18	Career Based Incentives	L&G Ch. 11
April 20	Career Based Incentives	Chung and Dasgupta, L&G Ch. 11
April 25	Options and Executive Pay	L&G Ch. 12
April 27	Options and Executive Pay	Disney Case, L&G Ch. 12
May 2	Entrepreneurship/Intrapreneurship	L&G Ch. 14
May 4	Entrepreneurship/Intrapreneurship	Polaroid Case, L&G Ch. 14
May 9	<i>Review Class</i>	

Detailed Learning Outcomes:

PART I

Chapter 1 – Setting Hiring Standards

- Evaluate when a firm should hire low wage workers over higher wage workers
- Discuss how the skills of workers should change if the firm increases its investment in capital equipment
- Evaluate the optimal number of workers the firm should hire
- Compare strategies for hiring risky workers
- Discuss the special considerations for hiring uncommon skills

Chapter 2 - Recruiting

- Compare strategies for reducing interviewing and hiring costs for the firm
- Analyze the appropriateness of requiring credentials when hiring
- Evaluate whether the firm should adjust pay on the basis of performance
- Hypothesize how a probationary hiring system would be implemented

Chapter 3 – Investing in Skills

- Evaluate whether a firm should pay for training
- Choose the optimum level of job training
- Analyze and discuss the age-earnings profile
- Evaluate how a firm's reputation can affect its training costs

Chapter 4 – Managing Turnover

- Evaluate strategies to reduce turnover costs in the firm
- Illustrate how a firm defines its offer matching policy
- Discuss the choice of raiding another firm for talent
- Design strategies to prevent poaching of talent
- Analyze the necessary considerations for the firm when undergoing personnel reductions

PART II

Chapter 5 – Decision Making

- Discuss the theory of the firm
- Analyze the relationship between specific knowledge and decision authority
- Evaluate the effect of organizational design on risk taking
- Illustrate how organizational design can affect Type I and Type II errors

Chapter 6 – Organizational Structure

- Compare and contrast different types of organizational structures
- Evaluate the effects of organizational structures on costs and decisions
- Discuss decision making strategies
- Analyze the relationship between organizational structure and firm strategy

Chapter 7 – Job Design

- Analyze the three economic goals in job design
- Discuss the key features of a job design
- Evaluate approaches to thinking about decision authority

Chapter 8 – Advanced Job Design

- Discuss the characteristics of teams
- Analyze the use of teams from a cost-benefit perspective
- Hypothesize about the types of organizations that should use teams
- Choose the optimal team size and composition
- Evaluate how teaming impacts job design

PART III

Chapter 9 – Performance Evaluation

- Criticize the exclusive use of quantifiable metrics to support employee evaluations
- Discuss situations in which subjective measures may be appropriate
- Evaluate (un)controllable events in the context of performance evaluation and discuss why the concept is important
- Criticize the use of ranking as a form of evaluation

Chapter 10 – Rewarding Performance

- Contrast real world incentive plans with the economic ideal
- Discuss the results one could expect from a properly designed incentive scheme
- Choose which settings are most appropriate for incentive schemes
- Discuss the potential pitfalls in implementing a pay-for-performance system and hypothesize strategies for avoiding them
- Analyze the difference between gains from sorting and gains from incentives

Chapter 11 – Career Based Incentives

- Discuss career based incentives
- Evaluate how and when a firm can use promotions for maximum incentive benefit
- Evaluate how and when seniority based incentives are effective
- Hypothesize how to motivate tournament participants when ability varies or certain parties are not in contention

Chapter 12 – Options and Executive Pay

- Evaluate how and when a firm should use stock options
- Discuss how options should be structured
- Compare and contrast metrics for measuring executive performance
- Analyze situations in which executive pay for performance is or is not effective

PART IV

Chapter 14 – Entrepreneurship and Intrapreneurship

- Analyze how human capital differs between entrepreneurs and non-entrepreneurs
- Evaluate whether an employee's human capital should resemble that of an entrepreneur
- Compare and contrast intrapreneurship and entrepreneurship
- Discuss strategies for supporting intrapreneurship