

University of Pennsylvania

The Wharton School

**Management 104**

*Industrial Relations and Human Resource Management*

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Office hours Tue 3pm to 4pm and by appointment

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**Course Overview:**

This is an introductory course on some of the issues surrounding the strategic management of human resources. The central focus will thus be on how to think about what the appropriate workplace incentives are. The principal aim is to understand what shapes performance in the workplace.

There are two-immediate reasons why this can be important for you. First, you are likely to be an employee and thus will be subject to a workplace environment that will shape your performance and promotion but also your career in general. Second, before you know it, you will be in charge of other employees either explicitly as a supervisor/manager but very often implicitly through team-work and peer-effects in the workplace. Understanding the forces that shape behavior in a modern workplace is thus instrumental in your evolution after Wharton. Effective leadership and productive cooperation in the workplace is conditional on mastering the knowledge about how to motivate employees and this course provides an overview about some of the key aspects and provides you with the tools that help you develop and deepen your knowledge of this area in your future careers.

The course requires no pre-requisites.

The course has two aims:

- 1) **Topics:** Present to you theories and empirical evidence in the field of personnel economics and human resource management. A particular emphasis is on how the current financial crisis affects how companies motivate their employees.
- 2) **Tools:** Teach you the methodology and the tools to enable you to study and discuss evidence in this field. A particular innovation of this course is that you will learn how to conduct trials and experiments to explore incentive schemes in real settings. These so called field experiments are a simple yet powerful tool to collect evidence on what incentive strategies work best in a setting.

## General administrative information

To avoid administrative difficulties please familiarize yourself with the Undergraduate webpage in particular with this page <http://undergrad.wharton.upenn.edu/highlights/faculty.cfm> which contains information on drop/withdrawal deadlines, the policy on secular and religious holidays, and on rules governing attendance and job interviews. I particularly want to stress the importance of the guidelines on academic integrity and the Penn Student Code of Conduct .

## Required Readings

Required readings consist of two parts. Students are responsible for checking the Study.net and WebCafé sites periodically for updates.:

- 1) Material consisting of Worksheets, Lecture Notes, Cases, Journal Articles, and links to news articles will be posted on the Study.net webpage here:  
[http://www.study.net/r\\_mat.asp?crs\\_id=30014703](http://www.study.net/r_mat.asp?crs_id=30014703) .
- 2) During the course I will also make available on WebCafé the Worksheets and Lecture Notes here: <https://webcafe.wharton.upenn.edu/eRoom/mgmt/104-sp10-1> .

The course builds upon the required readings and it is expected that you come to class having read the relevant paper or prepared the Worksheet. The Worksheets can sometimes be challenging but I want you to try to answer the questions so we can have an effective class discussion. Initially some papers may be hard to follow but you are encouraged to persevere; focus on the text and use the Worksheets to guide you through the articles. The reading is an essential preparation to get the most out of the work you will do during the classes.

**Add/Drop Deadlines:** As per University Regulations, “You may drop courses until the end of the fifth week of classes. ... After the drop deadline, you may submit a petition to the Petitions Committee to drop a course” ([http://undergrad.wharton.upenn.edu/advising/drop\\_request.cfm](http://undergrad.wharton.upenn.edu/advising/drop_request.cfm)). It is my policy NOT to sign petitions to drop the course after the fifth week. In spring 2010, the add/drop period is expected to end on February 1.

**Withdrawal Deadline:** As per University policy, the formal withdrawal deadline is “after the end of the tenth week of the semester. If you have a serious and compelling extenuating circumstance, you may petition the Petitions Committee to grant a late withdrawal for a course” (<http://undergrad.wharton.upenn.edu/advising/withdrawal.cfm>). It is my policy NOT to permit withdrawal from the course after the tenth week of class unless the petition is accompanied by a written medical excuse by a licensed medical practitioner indicating that a student cannot complete this course. **In spring 2010, the last day to withdrawal is expected to be April 2.**

**Expectations:** All students should become familiar with and adhere to the Penn code of student conduct (available at <http://www.vpul.upenn.edu/osl/conduct.html>). Class attendance and punctuality are expected. *I do not permit laptop computers, handhelds and smart/cellphones etc. to be used during class.* The central feature of the course will be the discussions of the readings and the worksheets that I will work through with you in class. I thus expect that you have read the required readings I assigned to you for a lecture. I will lead the discussions and will invite students to answer questions and to contribute to the discussion. As described below course participation will be 20% of the grade and it will be a function of the **quality** of your contributions in class. So be prepared and read the required papers, cases, and articles.

**Missing the Exam:** Students may miss scheduled examinations only with a University-approved excuse. This includes sickness accompanied with a written medical excuse from a licensed medical practitioner explaining why you cannot attend the exam. Other valid excuses include a varsity (but not club) sport competition (but not training). In particular, job interviews are not a legitimate reason to miss an exam. If you cannot be present at the two exams you should drop this course now

**Exam Regrades:** To submit a regrade request for an exam, a student must submit the original test sheet, a signed regrade affidavit (see the Web-café for the template), and a written memorandum explaining why the exam should be regraded. Such requests must be submitted within seven days after an examination has been returned to the class. The entire exam will then be reviewed, and a student’s midterm grade may go down, go up, or remain unchanged at the prerogative of the professor for the module. Students must not mark, make notes on, or alter the exam papers for which they seek a regrade; any such alteration will be seen as a violation of the Code of Academic Integrity.

### Important Dates

**Thursday March 4:** First exam which will take place during regular class. If you cannot come to class on that day then please drop this course now. *See the “Missing the Exam” section above.*

**Tuesday March 16:** Deadline for online submission on WebCafé of the first essay by the start of the class. Further information about the first essay is below.

**Tuesday April 15:** Deadline for online submission on WebCafé of the team project by the start of the class. Further information about the team project is below.

**Thursday April 22:** Second test during regular class. If you cannot come to class on that day then please drop this course now. *See the “Missing the Exam” section above.*

***There is no final exam in this course.***

## Course requirement and Grading

The final mark is composed of several elements. The average grade target across all students is 3.3.

*20% for class participation:* The course's central pedagogic approach is for you to be prepared for class by having read the assigned material. I will invite students to answer questions and to contribute to the discussion. It is the **quality** of contributions that matters here. I also expect you to be on time and not to leave before the end of class. *I do not permit laptop computers, handhelds and smart/cellphones etc. to be used during class.*

*10% for the first essay:* The first essay is due by the deadline mentioned before. The word limit is strictly **1000 words**, excluding references and tables (if any). You should *not* feel obliged to exhaust the word limit; indeed in the last year the word count was not correlated with the grade obtained. Further information on the first essay is given below. You must upload your essay to your folder on the WebCafé webpage . No hard-copies please.

*25% first exam.* The date of the first mid-term exam is mentioned above. This first mid-term will be based in part on multiple choice questions and on essay based questions. Important note: This mid-term is mandatory and you will only be permitted to take a make-up mid-term in the following two cases: (i) you have a conflict with another mid-term of a course that explicitly asked you to drop their course in their syllabus if you anticipated a conflict on the day and time of their mid-term (ii) you have a true medical emergency in which case you must have a signed note from a medical doctor stating that you are/were physically unable to take the exam.

*20% for the second essay.* The deadline for this second essay is mentioned above. In this second essay you should study and discuss the implication of the current financial crisis on human resource management broadly. More information and guidance will be made available at a later stage.

*25% second, end-term exam.* . The date of the first mid-term exam is mentioned above. This first mid-term will be based in part on multiple choice questions and on essay based questions.

### ***The first essay***

As noted above the first essay will carry a weight of 10% with a word limit of 1000 words. The deadline is March 16 by the start of class. You must upload your essay to your folder on the WebCafé webpage. No hard-copies please. The title of the essay is:

“Should executive pay be regulated? Discuss and analyze the various types of regulation.”

This essay will be a platform for you to showcase how you can argue the pros and cons of the various proposal that have been implemented in some countries and are currently debated in the US as well in the aftermath of the financial crisis of October 2008. During the course

The aim of this essay is for you to show the skills you acquired in this course. There is no need for you to research additional material instead I want to see how you can analyze the topic with the material we

covered in class. Bring to bear the tools of analysis and the concepts we covered in class. I will need to give you a grade for this essay and it will be based on whether I can see that you learnt something in this class.

### ***The second essay***

The second essay is in fact a team project. **On February 2, 2010** I will randomly put people into teams of four and you will work on this project together. In this project I will assign a job description (a task that needs to be done) and it will be up to you to recommend the contract for this task (selection and compensation). I will announce the exact job for which you will find the contract later in the semester. An important feature is that I will then implement your recommendation by offering this contract and then to see how real people will perform. So real money will be paid to real people doing the jobs.

The **deadline** for uploading your recommendations to WebCafé is Thursday April 15 by the start of class.

Be prepared to give an oral summary of your recommendations in class on Thursday April 15.

Further details for the Team project will be given on February 2, 2010.

### **A note on calculus and journal articles**

*Mathematical models:* In this course I will introduce you to some simple principal-agent models to analyze the incentive problems. The models will be using mathematical equations and some calculus. The level of mathematics and calculus is well within what you have learnt prior to entry to Wharton but I will give you a refresher when we go over the theory. Why do I use models? Because they help you to think through a problem for two reasons. First they force you to be explicit about what you think is the structure of the problem (what is often called “assumptions”) and second they allow you to abstract from many other factors that play an irrelevant role so you can sharpen your intuition.

The central aim here is for you to think cleanly about a problem so that you can apply the same method of thought when you encounter such problems after your time at Wharton.

*Journal articles:* In this course I will ask you to read some scientific journal articles in addition to newspaper articles and cases. There is no reason to be afraid of them. Moreover they might contain some technical elements that you can skip over. What I expect you to do is to **read the English text**.

## Topics

This course covers elementary theory, empirical methodology and empirical evidence. To me data, is the most important aspect of research and learning. Yet, guidance from theory is essential to shape the intuition and to understand what the underlying mechanisms could be driving the pattern in the data.

Below is a list of topics that we will cover. During the course I will repeatedly bring in evidence and examples in particular in view of your second essay that looks at the effect of the current financial crisis on human resource management. All papers are in the bulkpack for this course (make sure you get the Iwan Barankay version).

**Note: I will update continuously the exact time details of when and for how long topics will be covered. I will also update the cases.**

### **Section 1**

**January 14 First lecture:** Introduction

**January 19 & 21:** Lecture 02 & 03. Worksheet 1 and 2 on *Introduction to the Principal Agent Models plus assigned articles*.

**January 26 & 28:** Lecture 04 & 05. Tournaments Part 1 Worksheet 3 (Netflix) and 4.

**February 2 & 4:** Lecture 06 & 07. Worksheet 5 (Multi-Tasking) and Worksheet 6 (Relational Contracts).

**February 9 & 11:** Lecture 08 & 09. *Introduction to Human Resource Management Practices: Complementarities of workplace practices*

Ichniowski, Casey, and Kathryn Shaw. "Beyond Incentive Pay: Insiders' Estimates of the Value of Complementary Human Resource Management Practices." *Journal of Economic Perspectives* 17, no. 1 (Winter 2003): 155-80.

Schlesinger, Leonard A. and Debra Whitestone, Harvard Business School case #483-103, People Express (A).

**February 16 & 18 Lecture 10 & 11: Discrimination**

Bertrand, M., and S. Mullainathan, "Are Emily and Greg More Employable than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination," *The American Economic Review*, 94(4) (2004), 991-1013.

Bertrand, M., Claudia Goldin and Lawrence F. Katz "Dynamics of the Gender Gap for Young Professionals in the Financial and Corporate Sectors,"

[http://faculty.chicagobooth.edu/marianne.bertrand/research/dynamics\\_1209.pdf](http://faculty.chicagobooth.edu/marianne.bertrand/research/dynamics_1209.pdf) forthcoming, American Economic Journal: Applied Economics.

**February 23:** Lecture 12. *Field Experiments: a powerful and often cheap method to get evidence in causal incentive effects.*

Reading TBC

**February 25: no class.** *Instead I will meet with the project teams individually over the preceding week to discuss their progress with their project.*

**March 2:** Lecture 13. *Strikes*

Krueger, A., and A. Mas, "Strikes, Scabs and Tread Separations: Labor Strife and the Production of Defective Bridgestone/Firestone Tires," *Journal of Political Economy*, 112(2), April 2004, 253-289.

**March 4: First exam during regular class**

**March 16 & 18** Lecture 14 & 15: *Low versus High Powered Incentives: Scope and Limitation*

Hall, Brian J. Hall, Edward Lazear, and Carleen Madigan, Harvard Business School case 9-800-291 "Performance Pay at Safelite Auto Glass (A)" which is based on Lazear, E. P., "Performance Pay and Productivity," *The American Economic Review*, 90(5) (2000), 1346-1361.

Gneezy, U. and A. Rustichini, "A Fine is a Price," *The Journal of Legal Studies*, 29(1) (2000), 1-17.

Charness, G. and U. Gneezy "Incentives to Exercise." *Econometrica*, 2009, 77 (3), 909-931.

**March 23** Lecture 16 *Gift Exchange Models*

Gneezy, Uri, and John A. List. "Putting Behavioral Economics to Work: Testing for Gift Exchange in Labor Markets Using Field Experiments," *Econometrica*, (2006), September, 74(5): 1365-1384.

**March 25** Lecture 17 *Bonus Schemes*

Bandiera, O., I. Barankay, and I. Rasul, "Incentives for Managers and Inequality among Workers: Evidence from a Firm Level Experiment," *Quarterly Journal of Economics*, 122 (2), May 2007, 729-773.

**March 30 & April 1** Lecture 18

*Understanding social relationships in the workplace and how they interact with monetary incentives*

Bandiera, O., I. Barankay, and I. Rasul, "Social Connections and Incentives in the Workplace: Evidence from Personnel Data," *Econometrica*, 2009, vol 77 (4) July, 1047-1094.

Bandiera, O., I. Barankay, and I. Rasul, "Social Preferences and the Response to Incentives: Evidence from Personnel Data," *Quarterly Journal of Economics*, vol. 120 (3), August, 2005, pp. 917-962.



**April 6: Lecture 19 Image Motivation**

Ariely, Dan, Anat Bracha, and Stephan Meier, “Doing Good or Doing Well? Image Motivation and Monetary Incentives in Behaving Prosocially,” *American Economic Review*, 2009, 99(1), 544-555.

**April 8: Lecture 20 Peer Effects**

Falk, Armin, and Andrea Ichino, 2006, “Clean Evidence on Peer Effects,” *Journal of Labor Economics*, 24(1), 39-58.

Mas, Alexandre and Enrico Moretti, 2009, “Peers atWork,” *American Economic Review*, 99:1, 112–145.

**April 13 & 15: Lecture 21: Feedback, Status and Rank Incentives**

Reading TBC