GPS, UC San Diego

Syllabus

Organizational Economics Elizabeth Lyons
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Tuesdays & Thursdays 12:30 am – 1:50 am Office Hours: Wednesdays 9:30-11:30 am

1. Administrative Information

Email: lizlyons@ucsd.edu

Office hours: Wednesdays 9:30-11:30 am over Zoom

- Please sign-up for office hours here if you plan to attend

If for some reason you are unable to come to my office during these times, please send me an email to schedule a meeting.

Course Materials:

- HBS Coursepack available at https://hbsp.harvard.edu/import/859681 (includes cases and some articles that are not publicly available)
- Additional readings and cases available through Google Scholar & UCSD Library

2. Course Scope and Mission

Organizations exist in many forms, and many of us take their existence for granted. However, given that many transactions and coordinated activities take place outside of organizations, what purpose do formal organizations serve? This course is motivated by the questions of why coordination is so frequently carried out within formal organizations and how this coordination can be managed to achieve an organization's goals. With a better understanding of how and why coordination occurs within organizations, students will be better equipped to analyze and make decisions about how specific formal and informal arrangements within and between organizations affect workers, managers, strategy, and organizational success.

The specific topics we will study include ownership, contractual agreements, incentives in firms and non-profits, teams, and organizational culture. We will also consider how digital technologies are altering how and where coordination occurs.

We will study the nature of organizations by applying theories and findings from large empirical studies to evaluations of examples provided by case studies. The objective of the course is to help students develop their ability to rigorously pursue and assess managerial action in organizational contexts, and to better understand how managers and employees may be expected to respond to different work environments and incentives.

By the end of this course, students should be able to:

- Understand and explain the benefits and costs of formal organizations like firms.
- Evaluate whether or not transactions and agreements should be administered by contract or ownership across institutional environments and transaction objectives.
- Understand the upsides and downsides of hierarchy, and evaluate whether a given firm should be more or less hierarchical.
- Identify a range of incentives firm owners can offer employees, and understand the circumstances under which incentive types are useful or harmful.
- Understand how moral hazard affects firm owners' abilities to provide ideal worker incentives, and identify various managerial tools for addressing moral hazard.

3. Course Guidelines and Policies

General Class Rules and Expectations:

Though attendance is not graded, I strongly encourage students who are able to attend class to do so.

As in all classes, whether in person or remote, I expect everyone to treat everyone else with respect. This includes classmates, guest speakers, and myself. Name-calling, threats, discriminatory language (e.g. racist, sexist, or homophobic), and any kind of harassment will not be tolerated. Please come and speak to me or to student services if you experience or observe a disrespectful encounter.

To ensure the safety and comfort of all students, staff, and faculty, please respect and adhere to campus policies on distancing and masking. If you have any questions or concerns about these policies, please speak to student services.

For short and easy to answer questions not answerable by the syllabus, please email me. I will not respond to emails that ask for information that is available in the syllabus. I will do my best to reply to emails within 48 hours. For questions and comments that require lengthy answers or discussion, please attend my office hours or schedule a meeting with me.

Office Hours

I will conduct office hours over zoom during the fall, 2021 quarter. If you have signed up for an office hours slot, please sign in on time, and have your full name as your Zoom profile name so that I recognize you and let you into the meeting. Please also have your camera on unless doing so is not possible, and be prepared with your questions or comments to ensure we have a productive meeting. If you signed up for an office hour slot but can no longer attend, please email me as soon as possible so that I can open the slot for someone else.

I will not be able to stay after class for questions, so please ask question during class time or during office hours or scheduled meetings.

4. Academic Integrity

As a student in this course, you are agreeing to uphold academic integrity. This includes committing to do the work assigned to you without the use of unauthorized aids, and to report any suspected abuses of this principle by any of your peers. Discussion about course topics and assignments among peers is strongly encouraged. However, permission and proper documentation is required if you are referencing other people's ideas and research in your assignments. Other people's ideas and research includes class slides, any other material you receive from myself or other professors, and your peers' work. You may not submit work of your own that has been submitted to another course for a grade without explicit approval from both me and the professor of that class. Proper citation of references requires both quotation marks when words are used verbatim, and exact citations to the text and page number. The ability to analyze the work of others demonstrates your understanding of the topic being addressed. Discussion or sharing of ideas of any kind during the open-book test is not permitted.

The goal of this course is to ensure that you learn, and that you contribute to the education of others in the course. Academic misconduct undermines these goals, and will be taken very seriously.

All written assignments will be submitted through Turnitin. If any of your assignments have one complete sentence or more copied from someone else's work and not properly cited, I will report this to University administration as academic misconduct. If you are not sure how to reference outside sources please come and speak to me before your first assignment is due. Enrollment in this course signals your willingness to submit your work to Turnitin.

5. Course Assignments and Evaluation

Your course grade will be based on class participation (15%), case discussion leads (15%), a group paper and presentation (35%), and an open-book final test (35%). **Assignments turned in within 3 hours following the deadline will be docked 15% of the grade you receive on the assignment. Any assignment turned in after this 3 hour window will receive a grade of "0". Please both email a copy of the assignment to me, and submit a copy of the assignment to Turnitin.** The only exceptions to this are illness for which you must provide a doctor's note, and circumstances related to illness or death in your family. Technological difficulties, and not understanding instructions are *not* valid excuses for missing deadlines. If you are unsure of what the deadline is, or how to submit your assignments, please speak to me about this before your first assignment is due.

Class participation (15%): Active participation in class is critical for you to benefit from this course. Participation includes asking questions, contributing to class discussions, and providing suggestions or answers to questions asked by others *during* class time. Comments and questions should relate to the course content and should contribute to the relevant discussions. You must attend class in order to participate, however, attendance on its own will not contribute to your participation grade, nor will questions asked during office hours.

If you are attempting to participate, but feel that I am not giving you the opportunity to do so, please let me know. It is your responsibility to let me know that you want to participate during class, I will not systematically call on students to speak during class if they have not indicated they would like to speak.

Case Discussion Leads (15%): In addition to your routine contributions to class discussions, one student for each case will be assigned to lead case discussions every week. Leading discussions involves summarizing the most important background information, and introducing some of the key questions and issues the case brings up. Hand-outs, slides, and/or information circulation over email are permitted to support these discussions, but they are not required. These discussions should be a **maximum of 20 minutes in length** divided between your presentation and open discussion with the class. **At least 5 of these minutes should be spent on open discussion with the class.**

I will assign discussion leads to cases during the first week of classes. If you and another student agree to trade cases, please let me know as soon as you do so. **Please email me in advance of the second day of class to let me know if there are any classes you will be absent for so that you are not assigned to a case during those times.**

Final Paper and Presentation (35%): You will prepare a 5-page maximum report, and a 12 minute presentation followed by a 5 minute question period on a case related to a topic we have covered in the course.[1] Depending on the size of the class, you may work on this assignment on your own or in a group of 2. **Please note that the final decision on whether this assignment will be completed in groups or not will be made by the third week of class.** Your group will act as consultants for the organization your case focuses on, and you will provide recommendations on how the organization should proceed on a specific problem your case brings up. You may choose a Harvard Business School case not covered in our classes, or a case you've read about in the news or elsewhere. The case you choose should have some relationship to a topic covered in class. You must meet with me during my office hours or with an

[1] Note that the length of presentations is subject to change depending on the number of students in the class by the end of the quarter. Please verify the length of presentations in class slides or by speaking to me.

appointment once you have selected a case. Only one group can work on a given topic. To secure your chosen case and to ensure you are on the right track, please meet with me as early as possible. Presentations will take place last week of classes. O**ne report per project must be submitted to me in word or pdf format by November 29 at 10 pm. Please submit by email and on Turnitin. In addition, you must submit one slide deck in power point or pdf format to me by email the evening before your presentation by 6 pm**.

> Notes on your presentation: Please make sure you rehearse your presentation and you can easily complete it within your allocated time. It is unlikely that you will have time in your presentation to cover everything you cover in your report. Please focus on what you think is most important and interesting about your report. The presentation is intended to be a pitch of your recommendations as a consultant. By submitting your slides to me the night before your presentation, you will have a window of time during which your slides cannot be edited. Your time should instead be spent on practicing what you will say. Clarity, conciseness, thoughtful responses to audience questions, and interest from your audience will contribute to your grade.

Open-Book Test (35%): You will have an open-book in-class test exam on November 23, 2021 during class time. You will type your question answers and submit them to Turnitin. The use of the internet while you are writing your answers is prohibited.

6. Class Schedule

Readings for the course are included in this table. Please ensure that you have read the required readings before class each week. We will begin the course with an overview of important concepts in the field of organizational strategy and economics in order to develop a foundation understanding the subsequent topics we cover. The remaining weeks will include one-two case readings and several non-case readings. Weeks 2-4 are dedicated to topics related to organizational structure including make or buy decisions, and authority hierarchies. Beginning the first week of February, we will move on to labor and human resource management. The week of February 25 is a special topics class focused on incentives in non-profit organizations. Our last two classes will be dedicated to review and exam preparation, and project presentations respectively.

Class Dates	Topic	Readings	Notes
September 23 & 28	Foundations of Organizational Strategy & Economics	Coase, Ronald H. "The Nature of the Firm." *Economica*, Nov. 1937. Alchian, Armen A. & Demsetz, Harold. "Production, Information Costs, and Economic Organization." *The American Economic Review*, Dec. 1972.	No Case Discussion Leads

		Williamson, Oliver E. "Transaction-Cost Economics: The Governance of Contractual Relations" *Journal of Law and Economics*, Oct. 1979. <u>Optional Readings</u> Holmstrom, Bengt & Roberts, John. "The Boundary of the Firm Revisited." *Journal of Economic Perspectives.* Fall 1998 • Summary of what has been written on the existence and function of organizations, useful examples. Williamson, Oliver E. "Comparative Economic Organization: The Analysis of Discrete Structural Alternatives" *Administrative Science Quarterly,* June, 1991. • Follow up on his 1979 work on Transaction Cost Economics. Lays out three organizational forms. Grossman, G. M. & Helpman, E. "Integration versus Outsourcing in Equilibrium." *The Quarterly Journal of Economics*, 2002. • Builds on work on make or buy decisions.
September 30 & October 5	Ownership vs. Contracts	Grossman, Sanford J. & Hart, Oliver D. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration." *Journal of Political Economy,* Aug. 1986. • You may skip over sections II and III Alfaro, Laura et al. "Come Together: Firm Boundaries and Delegation." *NBER Working Paper,* 2018. • Sections 1, 4, and 5 only Rogers, Steve. "Technical Note: Boards of Directors." 2004 "The Future of Work: There's an app for that." *The Economist,* January 3, 2015. <u>Cases:</u> "The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?" 2010.

October 7		**Guest Speaker**: Rachel Green, CEO of TEAM Rick Management Strategies
October 12 & 14	Ownership vs. Contracts in the International Context	Oxley, Joanne E. "Institutional Environment and the Mechanisms of Governance: The Impact of Intellectual Property Protection on the Structure of Inter-Firm Alliances." *Journal of Economic Behavior and Organization*, 1999. • Sections 1 & 2 only Berlingieri, Giuseppe et al. "Organizing Global Supply Chains: Input Cost Shares and Vertical Integration." *NBER Working Paper*, 2018. "The Offshore Culture Clash." *The Economist Intelligence Unit*, Management Agenda. 2013. <u>Cases:</u> "Foxconn Technology Group: Acquiring Sharp to Move Up the Value Chain." 2019.
October 19 & 21	Hierarchy Structures within Organizations	Bernstein, Ethan & Nohria, Nitin. "A Note on Organizational Structure." HBS Note. Aghion, Philippe & Tirole, Jean. "Formal and Real Authority in Organizations." *Journal of Political Economy*, Feb. 1997. • Introduction and Summary only Galinsky, Adam D. & Schweitzer, Maurice E. "The Ups and Downs of Managing Hierarchies: The Keys to Organizational Effectiveness." *IESE-Insight Magazine*, December, 2015. <u>Cases:</u> "Opening the Valve: From Software to Hardware." 2014 **Guest speaker, October 21**: Abby Weiss, employment lawyer

October 26 & 28	Incentive Contracts within Organizations	Kerr, Steven. "On the Folly of Rewarding A, While Hoping for B." *The Academy of Management Journal*, Dec. 1975. Gibbons, Robert. "Incentives in Organizations." *Journal of Economic Perspectives,* Fall 1998. Atkin, David et al. "Organizational Barriers to Technology Adoption: Evidence from Soccer Ball Producers in Pakistan." *NBER Working Paper* #21417, July 2015. • Introduction and conclusion only Ikeda, Naoshi et al. "Enjoying the Quiet Life: Corporate Decision-Making by Entrenched Managers." NBER Working Paper #23804 • Sections 1, 2, and 8 only <u>Cases:</u> "The Lincoln Electric Company." 1983. "Arck Systems." 2001. <u>Optional:</u> Gosnell, Greer K. List, John, & Metcalfe, Robert D. "The Impact of Management Practices on Employee Productivity: A Field Experiment with Airline Captains." NBER Working Paper #25620, 2019.
November 2 & 4	Team Management	Holmstrom, B. "Moral Hazard in Teams." *The Bell Journal of Economics,* 1982. • Introduction and conclusion only Dessein, Wouter & Santos, Tano. "Adaptive Organizations." *Journal of Political Economy,* Oct. 2006. • Introduction and conclusion only Williams, Joan C. & Muhaylo, Sky. "How the Best Bosses Interrupt Bias on Their Teams." *Harvard Business Review,* 2019. <u>Cases:</u>

		"Innovation and Collaboration at Merrill Lynch." 2007.
November 9 & 11	Incentives and Non-Profits	Besley, Timothy & Ghatak, Maitreesh. "Competition and Incentives with Motivated Agents." *American Economic Review*, 2005. • Introduction and section 2A only. Rose-Ackerman, Susan. "Altruism, Nonprofits, and Economic Theory." *Journal of Economic Literature*, June 1996. • Focus on sections 3, 5, and 6 in particular. Giné, Xavier, Ghazala Mansuri, and Slesh A. Shrestha. "Mission and the Bottom Line: Performance Incentives in a Multigoal Organization." The Review of Economics and Statistics (2020): 1-45. • Introduction and conclusion only. "Profiting from Non-Profits." *The Economist*, July 15, 2010. <u>Case:</u> "GiveDirectly." 2018 **Guest speaker. November 11:** Paul Niehaus, Founder of GiveDirectly, UCSD Economics Professor
November 16 & 18	Organizational Culture	Chatman, Jennifer A. & Eunyoung Cha, Sandra. "Leading by Levering Culture" *California Management Review,* Summer 2003 Sorensen, Jesper B. "Note on Organizational Culture." *Stanford Graduate School of Business*, September, 2009. Gorton, Gary B. & Zentefis, Alexander K. "Corporate Culture as a Theory of the Firm." NBER Working Paper #27353. 2020. • Introduction only.

		Cassar, Lea & Meier, Stephan. "Intentions for Doing Good Matter for Doing Well: The (Negative) Signaling Value of Prosocial Incentives." NBER Working Paper # 24109. • Introduction and conclusion only. Cases: "Through the Eyes of a Whistle Blower: How Sherry Hunt Spoke up About Citibank's Mortgage Fraud." 2014. "Keeping Google 'Googley'." 2011.	
November 16, 18	Course Review and Catch-Up	Review all topics	No Case Discussion Leads
November 23	In-Class Open-Book Test		No Case Discussion Leads
November 30 & December 2	Group Presentations	Reports due November 29 by 10 pm • Submit by email and Turnitin	No Case Discussion Leads