Course Description

Firms succeed and fail on the strength of their internal organization. Drawing on both neoclassical and behavioral economics, this course explores the challenges that managers face when designing their organizations and constructs a toolkit that aids them in this strategic choice. We first deal with the incentive and information problems firms face in getting their employees to maximize firm value. Here we investigate the scope and pitfalls of incentives, the use of interlocking systems of organizational practices, and the value of markets within firms. We then deal with the challenges that arise from employees’ human biases. We offer a unified perspective on the origin and manifestation of these biases and provide remedies for the problems they create. Finally, we move from the internal to the external organization of firms and consider the strategic case for and against mergers.

Office Hours

My official office hours are TBD. You are also welcome to come by at other times or call me. My office in the Global Hub is 4241, and my office phone number is 847 467 0306.

Digital Workflow

You may use a tablet in class, as long as: it remains flat on the desk; is used only for course activities; displays only course readings or notes; and remains in “airplane” mode with access to the internet disabled.

No-Laptop Policy

Except for the tablet described above, you may not use laptops, mobile phones, or related devices during class unless directed to do so.
Seating Chart

I use assigned seats to facilitate class interactions. Your assigned seat will be the seat you choose for the second class meeting.

Class-Preparation Surveys

For some classes, you are required to fill out class-prep surveys. The surveys will be posted online, and they are due prior to class. The purpose of these surveys is for you to prepare for class and for me to get your views about the cases. The surveys are not intended to test you, and your answers will not be graded (your survey grades will be based only on whether the surveys were handed in and the questions have been answered). There is no need for elaborate answers, and brevity is very much encouraged. I have indicated classes for which you have to fill out class-prep surveys in the course outline below.

Attendance

I do not take attendance and do not grade on attendance. I do, however, grade your participation in class discussions. If you don’t attend a class, you obviously cannot participate in that class; as a result, your participation grade suffers.

Assignments

There are two individual assignments. See the calendar on Canvas for due dates.

Midterm Exam

There will be an in-person midterm exam during week 6. Except for a one-page (letter-sized, double-sided) “cheat sheet,” this exam will be closed-book. I will distribute more information as the date of the exam approaches.

Final Exam

There will be an in-person final exam during finals week. Registration is required. The exam will cover material from the entire course. Except for a two-page (letter-sized, double-sided) “cheat sheet,” this exam will be closed-book. I will distribute more information about the final towards the end of the quarter.
Grading

Your final grade will be based on the following four components:

- Class performance, including class-prep surveys (25% of final grade)
- Assignments (10% of final grade)
- Midterm Exam (25%)
- Final exam (40% of final grade)

**Note:** if you perform better on your final than on your midterm, then your final is worth 65%, and your midterm worth 0%, of your final grade.

Reading Material

All required and optional reading is either included in the course packet or posted online.

Resources

Students can find useful resources for safety and security, academic support, and mental and physical health and well-being on the NU help [website] and [app].
Week 1

Why do Organizations Fail?

- Tuesday. Introduction: Why do Organizations Fail?
  Things to do before our meeting:
  - None

- Friday. Lecture: The Rational Model.
  Things to do before our meeting:
  - None
Week 2

The Power and Pitfalls of Incentives

• Tuesday. Lecture: Baseball versus Basketball Firms.

Things to do before our meeting:

- Listen to the following NPR Planet Money podcast (Episode 700: Peanuts and Cracker Jack, length 21:29):

  https://www.npr.org/sections/money/2016/05/06/477082513/episode-700-peanuts-and-cracker-jack

• Friday. Case Discussion: Lincoln Electric.

Things to do before our meeting:

- Read the “The Lincoln Electric Company” case, which is included in the course packet.

Fill out the class prep survey posted on Canvas. **Deadline: start of class.**
Week 3

Incentive Systems

• Tuesday. Lecture + Case Discussion: The Mayo Clinic.

  Things to do before our meeting:

  - Read the “The Mayo Clinic” case, posted on Canvas.

  Fill out the class prep survey posted on Canvas. **Deadline: start of class.**

• Friday. Case Discussion: Arthur Andersen.

  Things to do before our meeting:

  - Read the “Failed Synergies: Arthur Andersen” case, posted on Canvas.

  Fill out the class prep survey posted on Canvas. **Deadline: start of class.**
Week 4
Markets within Firms + Assignment 1

- Tuesday. Lecture + Case Discussion: Timken.
  Things to do before our meeting:
  - Read the “Transfer Pricing at Timken” case, which is included in the course packet.
  - Fill out the class prep survey that is posted on Canvas. **Deadline: start of class.**

- Friday. Lecture + Case Discussion: Feeding America.
  Things to do before our meeting:
  - Read the “Feeding America” case, which is posted on Canvas.
  - Fill out the class prep survey that is posted on Canvas. **Deadline: start of class.**

- **Sunday: Assignment 1 Due**
  - Assignment 1 is due by 11.59pm.
  - Submit the assignment on Canvas.
Week 5
Organizational Tragedies

- Tuesday. The Corporate Turnaround Game.

  Things to do before our meeting:
  - Bring your laptop to class (it needs to be a laptop, the game software does not run on tablets).

- Friday. Lecture: Organizational Tragedies.

  Things to do before our meeting:
  - None.
Week 6
Midterm + Happiness

- Tuesday. Midterm Exam.
  Things to do before our meeting:
  - Prepare for the exam; produce your cheat sheet.

- Friday. Lecture: Happiness and Purpose.
  Things to do before our meeting:
  - None.
Week 7

The Flesh & Blood Employee

• Tuesday. Lecture: Human Biases–Origins and Manifestations.

  Things to do before our meeting:
  - None.

• Friday: Lecture: Human Biases–Some Remedies.

  Things to do before our meeting:
  - None.
Week 8
Group Think + Horizontal Mergers + Assignment 2

- Tuesday. Lecture: The Economics of Group Think.

  Things to do before our meeting:
  - None.

- Friday. Lecture: Horizontal Mergers.
  - None.

- **Sunday: Assignment 2 Due**
  - Assignment 2 is due by 11.59pm.
  - Submit the assignment on Canvas.
Week 9
Vertical Mergers + Guest Lecture

- Tuesday. Case Discussion: Walt Disney and Pixar.
  Things to do before our meeting:
  - Read the “The Walt Disney Company and Pixar Inc” case, which is included in the course packet.
  - Fill out the class prep survey that is posted on Canvas. **Deadline: start of class.**

- Friday: Guest Lecture + Harry’s mini case.
  Things to do before our meeting:
  - None.
Week 10

Vertical Mergers

- Tuesday. Lecture: Vertical Mergers.
  Things to do before our meeting:
  - None

- Friday: Course evaluations and Review.
  Things to do before our meeting:
  - Bring your laptop to class.
Finals Week

In-class final TBD