Course Description

People respond to incentives and they do so in predictable ways. Starting with this simple premise, this course asks how managers can design incentives to get employees to do what they want them to do. The goal of the course is to offer a micro-economic approach to both the internal organization of firms and its relationship with the firms’ overall strategies. The first part of the course takes a firm’s activities as given and studies the problem of organizational design; topics include incentive pay, decentralization, transfer pricing, and complementarities. The second part examines the determinants of a firm’s boundaries and covers such topics as horizontal and vertical mergers, outsourcing, and foreclosure. The course consists of both lectures and case discussions.

Office Hours

My office hours are on Tuesdays from 5-6pm at Wieboldt. You can also reach me by email (bryony.reich@kellogg.northwestern.edu) or phone (847-467-3790). And if you are at the Global Hub, feel free to stop by my office (4213).

Digital Workflow

You may use a tablet in class, as long as it remains flat on the desk, is used only for course activities and displays only course readings or notes, and remains in “airplane” mode with access to the Internet disabled. I will view any violation of this policy very seriously and it will impact your class participation grade.

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 session.

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 to prepare you for the material that we will cover in class and for me to get a sense of student views before class starts. The surveys are not intended to test you, and your answers will not be graded (except on whether they 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.

Assignments

There are two individual assignments and two team assignments. See Canvas for due dates. You will be assigned a team.

Final Exam

There will be a final exam during finals week. The exam will cover material from the entire course. One 8.5 x 11 inch sheet (front and back) of personal notes will be permitted for each student to take into the exam. Other than this page, you may not consult any outside sources—online, offline, or human—during the exam. I will distribute more information about the final towards the end of the quarter.

Grading

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

- Class performance, including class-prep surveys (22.5% of final grade)
- Assignments, including peer review for team assignments (30% of final grade)
- Final exam (47.5% of final grade)

Reading Material
All required and optional reading is either included in the course packet or posted online.
Week 1, Jan 7

Introduction & Basic Concepts

• Part 1: Introduction and Case Discussion

Things to do before our meeting:

  – Read the “Putnam Investments: Work@Home” case, which is included in the course packet.
  – Fill out the class-prep survey that is posted on Canvas. **Deadline: start of class.**

• Part 2: Lecture

Things to do before our meeting:

  – None.

• Sunday, Jan 12: Assignment Due Date

  – Individual Assignment 1 is due by 11.59pm.
  – Submit the assignment on Canvas.
Week 2, Jan 14

The Economics of Motivation

• Part 1: Case Discussion & Design-A-Contract Game

  Things to do before our meeting:
  
  – Read the “Performance Pay at Safelite Auto Glass A” case, which is included in the course packet. You may also want to read a case update that will be in your course packet after class.
  
  – Fill out the class-prep survey that is posted on Canvas. **Deadline: start of class.**

• Part 2: Lecture

  Things to do before our meeting:
  
  – None.
Week 3, Jan 21

Paying for Performance

- Part 1: Lecture

  Things to do before our meeting:
  - None.

- Part 2: Case Discussion

  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 that is posted on Canvas. **Deadline: start of class.**

- Sunday, Jan 26: Assignment Due Date

  - Individual Assignment 2 is due by 11.59pm.
  - Submit the assignment on Canvas.
Week 4, Jan 28

Motivating Teams:
Initiative versus Cooperation

• Part 1: Case Discussion

  Things to do before our meeting:
  
  – Read the “Family Feud (A): Andersen versus Andersen” case, which is included in the course packet.
  
  – Fill out the class-prep survey that is posted on Canvas. **Deadline: start of class.**

• Part 2: Lecture

  Things to do before our meeting:
  
  – None.
Week 5, Feb 4

Decentralization I:
Externalities

- **Part 1: Case Discussion**
  
  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.**
  - Download the Timken spreadsheet from Canvas, and bring your laptop to class.

- **Part 2: Lecture**
  
  Things to do before our meeting:
  
  - None.

- **Sunday, Feb 9: Assignment Due Date**
  
  - Team Assignment 1 is due by 11.59pm.
  - Submit the assignment on Canvas.
Week 6, Feb 11

Decentralization II:
Coordination

• Part 1: The Corporate Turnaround Game

Things to do before our meeting:

  – Bring your laptop to class (it needs to be a laptop, since the game software does not run on tablets).

• Part 2: Lecture

Things to do before our meeting:

  – None.
Week 7, Feb 18

Review and Strategic Effects

- Part 1: Review
  Things to do before our meeting:
  - None.

- Part 2: Lecture
  Things to do before our meeting:
  - None.
Week 8, Feb 25

Horizontal Mergers

• Part 1: Lecture

  Things to do before our meeting:
  
  - None.

• Part 2: Case Discussion

  Things to do before our meeting:
  
  - Read the “Whole Foods Market and Wild Oats Merger” case included in the course packet.
  
  - Fill out the class-prep survey that is posted on Canvas. **Deadline: start of class.**

• Sunday, Mar 1: Assignment Due Date

  - Team Assignment 2 is due by 11.59pm.
  
  - Submit the assignment on Canvas.
Week 9, Mar 3

Vertical Integration I:
Specific Investments & Foreclosure

• Part 1: Case Discussion

  Things to do before our meeting:

  – Read the “The Walt Disney Company and Pixar Inc.: To Acquire or Not to Acquire?” case, which is included in the course packet.

  – Fill out the class-prep survey that is posted on Canvas. **Deadline: start of class.**

• Part 2: Lecture

  Things to do before our meeting:

  – None.
Week 10, Mar 10

Vertical Integration II:
Market Power

- Part 1: Market Power Game
  
  Things to do before our meeting:
  - None.

- Part 2: Lecture
  
  Things to do before our meeting:
  - None.
Finals Week

Exam is Tuesday, March 17 at 6pm