Relevant Research from Economics and Economic Sociology

What is novel and important about this stream of research is that it takes extremely seriously the need to show that the HR factors examined actually cause the outcomes of interest to us. We all see the consultant reports showing, for example, that firms with this practice have higher profits or other outcomes. But what those reports do not show is whether the higher profits actually cause companies to have those practices (e.g., we can afford wellness programs), whether a third factor, such as overall careful management, causes us to have both more sophisticated HR practices and better outcomes, or whether some other factor explains the association. Virtually all of the claims we have seen in the past go away when looked at more carefully.

It is not that the conclusions drawn here are novel: Someone, someplace has made every one of these claims – and more – before. It is that these results are highly credible. The underpinning econometrics is now widely seen as the empirical science of causation.

Here are just a few studies that may be of particular interest from this new stream of research. It is growing every day.

Does HR Matter? (What to give to your CFO)

Companies listed as "best places to work" have better long-run stock market returns and higher unanticipated or "excessive" share price increases.

Edmans, A. (2011). Does the stock market fully value intangibles? Employee satisfaction and equity prices. Journal of Financial Economics, Vol. 101, 621–640. http://faculty.london.edu/aedmans/Rowe.pdf.

Perceptions of managerial integrity and managerial ethics predict firm financial performance outcomes in later periods, Tobin's Q and Net Income/Sales in particular.

Luigi Guiso, Paola Sapienza, ad Luigi Zingales. 2015. The Value of Corporate Culture. Journal of Financial Economics Vol. 117 pp.60-76. http://www.eief.it/files/2015/07/guiso_sapienza_zingales_joffe_2015.pdf

In a global study, companies that have better management, including more sophisticated HR practices, perform better on a wide range of dimensions. Among other things, multinationals consistently perform better, family-run companies perform worse.

Nicholas Bloom and John Van Reenen. 2010. Why Do Management Practices Differ Across Firms and Countries? Journal of Economic Perspectives. Vol. 24(1) pp. 203-224. https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.24.1.203

What's Going on in the Labor Market

The "gig" economy is far smaller than we think and gig work is mainly "moonlighting," much of it done by people with full-time jobs. There is no persuasive evidence that it has been growing overall in recent decades, although it may occur in different places now.

Measuring the Gig Economy: Current Knowledge and Open Issues Katharine G. Abraham, John C. Haltiwanger, Kristin Sandusky, and James R. Spletzer. NBER Working Paper No. 24950 August 2018.

Employee turnover has actually been in decline of the past two decades, mainly because there are fewer very short-term jobs.

Declining Worker Turnover: the Role of Short Duration Employment Spells Michael J. Pries and Richard Rogerson NBER Working Paper No. 26019 June 2019 JEL No. E24,J23

Hiring

External hires perform considerably worse and are paid more than those promoted into the same role in the same companies.

Bidwell, M. J. (2011). Paying More to Get Less: The Effects of External Hiring Versus Internal Mobility. Administrative Science Quarterly, 56 (3), 369-407. https://repository.upenn.edu/cgi/viewcontent.cgi?article=1108&context=mgmt_papers

The more discretion managers have in making hiring decisions, the worse their hiring outcomes are.

Mitchell Hoffman, Lisa B. Kahn, and Danielle Li. Discretion in Hiring, Quarterly Journal of Economics, 2018, Vol. 133(2), pp. 765-800.
http://www-2.rotman.utoronto.ca/facbios/file/HKL.pdf

Employee Referrals produce better hires, but the reason seems to be because of informal onboarding that the referees do for them, not because they are better candidates per se.

Emilio J. Castilla. 2005. Social Networks and Employee Performance in a Call Center. American Journal of Sociology. Vol. 110(5): pp. 1243-1283. *http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.583.8316&rep=rep1&type=pdf*

Algorithms predict who will make it through the hiring process considerably better than recruiters do in the same company.

Bo Cowgill. 2018. Bias and Productivity in Humans and Algorithms: Theory and Evidence from Resume Screening. Columbia University Working Paper. *http://conference.iza.org/conference_files/MacroEcon_2017/cowgill_b8981.pdf*

Supervisors and Supervision

The variation in the quality of supervisors is substantial, and when an average worker moves from a bad boss to a good boss, their performance jumps. The performance of a team when moving from having a bottom 10% boss to a top 10% boss is the equivalent of adding an additional worker to a nine-person team. The average supervisor adds about 75 percent more value than does their average subordinate.

Edward Lazear, Kathryn Shaw, and Christopher Stanton. The Value of Bosses. 2015. Journal of Labor Economics. Vol. 33(4). Pp.823-861. *https://www.journals.uchicago.edu/doi/abs/10.1086/681097*

The people management skills of the supervisor, other things equal, reduce employee turnover by a considerable amount.

Mitchell Hoffman and Steven Tadelis. 2018. People Management Skills, Employee Attrition, and Manager Rewards: An Empirical Analysis. NBER Working Paper No. 24360.

Companies tend to promote the best individual contributors to managerial jobs even when other predictors of managerial potential are available, and when they do, the performance of those individuals is worse.

Alan Benson & Danielle Li & Kelly Shue, 2019. "Promotions and the Peter Principle," The Quarterly Journal of Economics, vol 134(4), pages 2085-2134.*

Compensation/Incentives *(there is a huge literature here)*

Performance incentives (known in advance as opposed to merit pay) are the most powerful factor in motivating performance. Even trivial incentives matter. The effects of performance incentives, piece rates in particular, on performance increase consistently as the rewards grow. Knowing how your work affects others matters. Delaying payments reduces performance substantially.

Stefano Dellavigna and Devin Pope. 2018. What Motivates Effort? Evidence and Expert Forecasts. Review of Economic Studies. Vol. 85 pp.1029-1069.

Telling employees how they rank as compared to their peers actually reduces their performance, also causes them to shift their efforts to outcomes where they are not ranked.

Iwan Barankay. 2012. Rank Incentives, Social Tournaments, Feedback, Field Experiment. *https://repository.upenn.edu/cgi/viewcontent.cgi?article=1218&context=mgmt_papers*

Performance Appraisal Systems

Prior performance of employees predicts relatively little of their future performance as measured by appraisal scores. Merit pay increases reward improvements in performance as well as absolute performance.

Peter Cappelli and Martin J. Conyon. 2017. What Do Performance Appraisals Do? ILR Review Vol. 71(1) pp. 88-116.

The gap between white men and other groups in terms of performance-based rewards was reduced substantially by the introduction of a system when supervisors had to explain their decisions on performance ratings and merit pay.

Emilio J. Castilla. 2015. Accounting for the Gap: A Firm Study Manipulating Organizational Accountability and Transparency in Pay Decisions. Organization Science. Vol. 26(2). 311-333. *https://pubsonline.informs.org/doi/10.1287/orsc.2014.0950*