Special issue “Insider Econometrics”

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While labor economics has traditionally focused on market issues rather than looking inside the “black box” of the firm, personnel economics (e.g. Lazear and Gibbs 2009) has taken up questions that were until recently primarily discussed by industrial sociologists and psychologists. Addressing standard human resource management questions, personnel economics uses standard economic and econometric tools applied to the special circumstances of managing employees within companies (e.g. Bloom and Van Reenen 2010). Given the potentially dysfunctional effects of performance pay and semi-autonomous forms of the organization of labor case studies are urgently required. There is a need to understand why competing organizations either adopt or refrain from adopting specific productivity-enhancing practices and the different impacts of that practice in organizations that adopt and do not adopt it as well as a need to understand why a particular practice is effective in raising the productivity among some while not among all (e.g. Ichniowski and Shaw 2009).

Now-seminal publications that have been published with this aim include Ichniowski et al. (1997) on the impact of clusters of human resource management practices on the productivity of steel mills in the United States and Lazear (2000) on the impact of replacing a fixed hourly pay rate by a piece rate pay system on the productivity of windshield installers in a large US firm. These publications have led to a rapid and considerable increase not only in the quantity but also the quality of empirical work on the productivity effects of (bundles of) human resource management practices: Mas and Moretti (2009) studies spillover effects among supermarket cashiers in a US chain, Bandiera et al. (2005, 2009) looks at the performance of fruit-pickers employed by a single farm in the UK, Hamilton et al.

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(2003) investigates the productivity effects of introducing teamwork in a US textile company, and Knez and Simester (2001) analyzes the performance of ground crews at airports served by Continental Airlines after the introduction of a company-wide tournament implemented to improve service quality.

The particular challenge of such work is best expressed in Ichniowski and Shaw (2009, p. 7): “Firms are making optimizing decisions when they choose management practices, and workers are making optimizing decisions when they respond to management practices. Therefore, our models of the effects of these practices on productivity face all the traditional problems of using non-experimental data. There is likely selection bias and endogeneity in the choices of workers and managers. There is omitted variable bias in the production function. We cannot know the unobserved counterfactuals about what would have happened if non-adopting firms adopted some new management practice or if adopting firms had not adopted.” Yet, insider econometrics differs from more traditional studies of treatment effects. Data is supplied by insiders who have been involved in decision-making to adopt a particular practice or have to apply it.

While many of the studies that have been published so far address human resource issues, the insider econometric approach is not restricted to this area (e.g. Januszewski Forbes and Lederman (2009) on vertical integration in the airline industry and Kalnins and Chung (2006) on social networks in the US lodging industry). Consistent with the relative weight of HRM and non-HRM papers in the existing literature, this volume assembles a number of case studies from the German academic community.

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