

## Mitchell's Musings 3-4-13: Agent! Agent!

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The title of this musing has a dual role. Most readers will be familiar with the frustration of calling an automated answering system of, say, a credit card company, and not finding a way to resolve the problem from the programmed menu. You then yell *Agent!*, *Agent!* until a person comes on the line and (maybe) deals with your issue. Of course, the agent who eventually responds is not your agent, but rather an agent of the company you are calling. That person – presumably – is doing what the company wants, not necessarily what you want.

Agency, in law and economics, refers to someone – often an employee – who represents and works for someone else. The issue is how to induce the agent to do what the employer wishes. Often the choice is simplified to supervision vs. incentive pay. But that is overly simple. In many cases, supervision is not technically feasible. A truck driver, for example, is difficult to supervise when on the road. If you paid by the hour, the driver might “shirk” and take too long to make the trip. You can alternatively pay by mile – a fixed amount since you know the mileage entailed in a given trip – for the delivery. However, if you take that approach, the driver may speed, possibly causing an accident. We could go on thinking of clever ways to solve the agency problem and try and specify just the right incentive. But, in the end, there will be trade-offs. No approach to solving the agency problem works “perfectly,” however that ideal might be defined.

Much of the focus of management revolves around getting the help to do the right thing. In the late 19<sup>th</sup> and early 20<sup>th</sup> century, Taylorism and scientific management was applied to factory workers. Time-and-motion studies were supposed to prescribe the exact body motions needed to complete a task. So a supervisory element was involved (at a cost). Piece rates were used to provide an incentive to complete the task quickly in the specified manner with an extra reward for exceeding some norm. Although Taylorism went out of fashion in academia, the approach - under whatever name - persists:

Part 1: [http://www.youtube.com/watch?v=EftYWQOs\\_cU](http://www.youtube.com/watch?v=EftYWQOs_cU)

Part 2: <http://www.youtube.com/watch?v=H8gioKjrFwk>

In the World War I era, Ford famously applied the time-and-motion element of Taylorism with what is now called an “efficiency wage,” i.e., a pay premium above the market norm for the kind of work involved. With an efficiency wage, workers will know that if they fail to meet standards, they will lose their job and thus the premium:

Part 1: <http://www.youtube.com/watch?v=PvbG9Sjp97o>

Part 2: [http://www.youtube.com/watch?v=kFsBC0\\_Uglg](http://www.youtube.com/watch?v=kFsBC0_Uglg)

Once you move beyond factory work, these approaches become less feasible, even for relatively unskilled jobs. As you might suspect, the videos listed above are all from a course I used to teach on

labor markets. Below is a link to another video I used to use, this one depicting a fast food restaurant in Britain. The video is an excerpt of a program in which the CEO of the fast food chain – who happens to be French - works in the restaurant to see how the service is actually delivered on the front line.

The chain uses “mystery shoppers” (at a cost) to visit the local restaurants in its network to see if quality/service standards are being met and also to reward employees who provide those service standards. <http://www.youtube.com/watch?v=EfdW6mgBEG0> In this case, the standard is met by the CEO/worker who gets a bonus reward (at a cost). But he is in reality part of a team that made his timely service possible and the other workers on the team resent the fact that only one team member received the award. It also turns out that there is also group reward provided by the chain in the form of a night out at a (presumably higher class) restaurant. But the store management did not disclose the reason for the outing to the team. Apparently, better training of store managers is needed (yet another cost) to make the team reward program operate as designed.

OK. You get the point. The agency concept is easy to state in the abstract but hard to implement in practice. There will inevitably be costs and trade-offs. But the fact that perfection is never on offer doesn't mean that in any organization improvements aren't possible.

All of this introduction is inspired by the recent news that at Yahoo a memo leaked out telling employees that working from home would no longer be an option and that work in the office would soon be required. The memo doesn't cite direct supervision as the rationale; instead, it refers to better coordination. But it can be inferred that the memo from the head of HR a) had to be approved from the top – the CEO - and b) was at least in part based on the idea that if people are at home, how do you know how intensely they are working? I reproduce the memo below:

*YAHOO! PROPRIETARY AND CONFIDENTIAL INFORMATION — DO NOT FORWARD*

*Yahoos,*

*Over the past few months, we have introduced a number of great benefits and tools to make us more productive, efficient and fun. With the introduction of initiatives like FYI, Goals and PB&J, we want everyone to participate in our culture and contribute to the positive momentum. From Sunnyvale to Santa Monica, Bangalore to Beijing — I think we can all feel the energy and buzz in our offices.*

*To become the absolute best place to work, communication and collaboration will be important, so we need to be working side-by-side. That is why it is critical that we are all present in our offices. Some of the best decisions and insights come from hallway and cafeteria discussions, meeting new people, and impromptu team meetings. Speed and quality are often sacrificed when we work from home. We need to be one Yahoo!, and that starts with physically being together.*

*Beginning in June, we're asking all employees with work-from-home arrangements to work in Yahoo! offices. If this impacts you, your management has already been in touch with next steps. And, for the rest of us who occasionally have to stay home for the cable guy, please use your*

*best judgment in the spirit of collaboration. Being a Yahoo isn't just about your day-to-day job, it is about the interactions and experiences that are only possible in our offices.*

*Thanks to all of you, we've already made remarkable progress as a company — and the best is yet to come.*

Jackie [Jackie Reses, HR head]

Source <http://allthingsd.com/20130222/physically-together-heres-the-internal-yahoo-no-work-from-home-memo-which-extends-beyond-remote-workers/>

The leak of the memo left the Silicon Valley (if I may pun!) all a-Twitter.<sup>1</sup> It is often said that one of the virtues of the Internet is that you can work from anywhere. And the memo seems to go against that idea. It seems to say that if you work from home, you will likely shirk and that work monitoring is only to be had at the office. Even the New York Times on the other coast had to take notice.<sup>2</sup>

So will the new policy solve the agency problem for Yahoo? Will it solve the larger problem Yahoo seems to have in competing with rival Google? Note that just having workers in an office by itself doesn't resolve the agency problem, as Dilbert pointed out some time back:



Is there in fact a system in place that is supposed to do the monitoring that Yahoo's top management seems to have in mind? The fact that a memo is sent out with "Confidential - Do not forward" on top – at an Internet firm! – suggests a lack of deep foresight into the consequences. Did no one foresee the bad PR that would result as news stories picked up on the difficulties the shift from home to office would pose for working moms? Or did these apparently unforeseen problems arise merely because of the lack of monitoring and coordination that the memo and the new policy are supposed to address?

<sup>1</sup> See <http://www.sfgate.com/technology/businessinsider/article/Why-Marissa-Mayer-Told-Remote-Employees-To-Work-4304049.php>, [http://www.mercurynews.com/business/ci\\_22666067/yahoo-ceo-marissa-mayers-ban-telecommuting-sparks-firestorm](http://www.mercurynews.com/business/ci_22666067/yahoo-ceo-marissa-mayers-ban-telecommuting-sparks-firestorm), and <http://www.latimes.com/business/la-fi-yahoo-telecommuting-20130226,0,5913345.story>.

<sup>2</sup> <http://www.nytimes.com/2013/02/26/technology/yahoo-orders-home-workers-back-to-the-office.html>

Here is a concrete problem that caused me to switch from Yahoo email to Google (Gmail). I used to have a Yahoo email account and in fact paid extra for larger storage. But one day it didn't work and I receive a notice that the account was temporarily unavailable. This problem persisted on and off for several weeks. Contacts with the techies at Yahoo produced useless suggestions such as maybe I should change my password. (I did change it and the change did not resolve the problem.) So I switched to Gmail and have had no such problems since. My wife had a Yahoo account and ran into the same non-availability issue – so my technical problem was not a fluke. She also switched to Gmail.

Google does have a policy of having people working in proximity rather than at home and the new CEO of Yahoo came from Google. But is worker proximity why my Gmail account hasn't developed a mysterious malady? Would my Yahoo mail problem have been fixed if all the Yahoo technical people had been at the office? Maybe they would have discovered a pattern of complaints about non-working email accounts in the coffee room. Or maybe not. But when an Internet company sends out a message saying "do not forward," it doesn't appear that anyone worked through alternative scenarios before a major policy change was announced.