

# Autonomy, Monitoring and Performance

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## Abstract

The aim of the present paper is to empirically investigate whether simultaneously providing employees with autonomy and exerting control via monitoring are complementary organisational practices, and to explore the effect of these organisational instruments on firm performance. Thereby we address the prediction of two contradictory theoretical approaches. On the one hand, standard principal-agent theory suggests that when workers are provided with autonomy to perform a task, they must be monitored in order to reduce the risk of opportunistic behaviour. On the other hand, self-determination theory and motivation crowding theory that both build on cognitive evaluation theory, assume that when autonomous employees are monitored their intrinsic motivation will be crowded out, and as consequence, workers reduce their work effort. Based on the IAB establishment panel, a representative panel of German establishments, we find positive and statistically significant effect for autonomy and monitoring, but a negative impact of their joint application on firm productivity. Furthermore, our estimations reveal that the effects are driven by the share of skilled employees in an establishment. In order to check the robustness of our results we consider alternative specification of our key explanatory variables but also change the perspective from the firm to the employee by using individual-level data from the German Socio-Economic Panel and consider as performance measure individual work effort. Our previous results are confirmed as the simultaneous implementation of autonomy and monitoring practices has a negative effect on employees' work effort. Our results provide no support for the principal-agent theory, whereas we find empirical evidence for the motivation crowding-out hypothesis. Accordingly, we conclude that these instruments are substitutional human resource practices and should therefore not be applied together.

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