

Fall semester 2023

Tuesday, 12:15-14:00, Auditorium WWZ

Thursday, 16:15-18:00, S15, WWZ

Incentive Pay and Employee Motivation

6 ECTS

- MSc. Business and Economics, Major Labour Economics, Human Resources and Organization
- MSc. Business and Technology, Business Field Human Resources

Learning Objectives:

This course considers the interplay between remuneration policy and employee motivation. Students should learn

- under which conditions incentive pay can be used effectively to motivate employees and when the use of incentive pay is problematic,
- which alternative wage policies and non-monetary incentives can be considered for motivating employees when the use of pay for performance poses problems,
- that the functioning of policies to motivate employees depends to a large extent on the behavioral assumptions about the individuals involved.

Table of Content:

1. Introduction

2. Pay for Performance

- 2.1. Performance Pay in Swiss SMEs
- 2.2. Performance Incentives and Risk Allocation
- 2.3. Incentive Intensity Principle
- 2.4. Informativeness Principle
- 2.5. Monitoring Intensity Principle
- 2.6. Equal Compensation Principle
- 2.7. Intertemporal Incentives: The Ratchet Effect
- 2.8. Conclusion
- 2.9. Case Study: Performance Pay at the Canton of Basel-Landschaft

3. Executive Pay

- 3.1. Recent Trends in Executive Pay
- 3.2. Interests of Ownership and Top Management

- 3.3. Stock-Based Pay
- 3.4. Issues of Executive Pay
- 3.5. Alternative Executive Pay Policies
- 3.6. Conclusion
- 3.7. Case Study: Construction of a Model of Relative Performance Pay
- 3.8. Guest Lecture: Indexed Performance Pay

4. Competition and Cooperation in the Workplace

- 4.1. Incentives in Promotion Tournaments
- 4.2. Free Riding in Teams
- 4.3. Pay for Performance in Teams
- 4.4. Peer Pressure and Norms in Teams
- 4.5. Conclusion

5. Performance Incentives and Intrinsic Motivation

- 5.1. Partial Joy of Work
- 5.2. Motivation Crowding-Out
- 5.3. Job Design und Symbolic Rewards
- 5.4. Conclusion and Implications

6. Performance Incentives and Social Preferences

- 6.1. Homo Economicus vs. Behavioral Economics
- 6.2. Inequality Aversion
- 6.3. Reciprocity
- 6.4. Empirical Evidence
- 6.5. Conclusion

Basic Literature:

- Ariely, D.; Kamenica, E.; Prelec, D. (2008): Man's search for meaning: the case of Legos. *Journal of Economic Behavior & Organization* 67, 671-677.
- Beckmann, M.; Cornelissen, T.; Kräkel, M. (2017): Self-managed working time and employee effort: Theory and evidence. *Journal of Economic Behavior and Organization* 133, 285-302.
- Brickley, J.A.; Smith, C.W.; Zimmerman, J.L. (2021): *Managerial economics and organizational architecture*, 7th edition, Boston et al.
- Cohn, A., Fehr, E., Herrmann, B.; Schneider, F. (2014): Social comparison and effort provision: evidence from a field experiment. *Journal of the European Economic Association* 12, 877-898.
- Dur, R.; Non, A.; Roelfsema, H. (2010): Reciprocity and incentive pay in the workplace. *Journal of Economic Psychology* 31, 676-686.
- Gagne, M.; Deci, E.L. (2005): Self-determination theory and work motivation. *Journal of Organizational Behavior* 26, 331-362.
- Garibaldi, P. (2006): *Personnel economics in imperfect labor markets*, Oxford.
- Grepperud, S.; Pedersen, P.A. (2006): Crowding effects and work ethics. *Labour* 20, 125-138.
- James, H.S. (2005): Why did you do that? An economic examination of the effect of extrinsic compensation on intrinsic motivation and performance. *Journal of Economic Psychology* 26, 549-566.
- Kuhn, P. (2018): *Personnel Economics*. New York, Oxford.
- Lazear, E.P.; Gibbs, M. (2015): *Personnel economics in practice*, 3rd edition, New York et al.
- Milgrom, P.R.; Roberts, J. (1992): *Economics, organization and management*, Englewood Cliffs, NJ.
- Robbins, S.; Judge, T. (2014): *Essentials of organizational behavior*, 12th edition, Pearson, Boston et al.

Detailed References:

- Chapter 1: Gagne & Deci; Robbins & Judge, chapters 7 and 8
- Chapter 2: Milgrom & Roberts, chapter 7
- Chapter 3: Brickley, Smith & Zimmerman, chapter 16; Lazear & Gibbs, chapter 12
- Chapter 4: Garibaldi, chapters 8.2-8.5 and 13; Lazear & Gibbs, chapters 8 and 11; Kuhn, parts 4 and 5
- Chapter 5: Kuhn, chapter 9; Gagne & Deci; Grepperud & Pedersen; James; Ariely, Kamenica & Prelec; Beckmann, Cornelissen & Kräkel
- Chapter 6: Kuhn, chapter 10; Dur, Non & Roelfsema; Cohn, Fehr, Herrmann & Schneider