



# The incentive effects of missions—Evidence from experiments with NGO employees and students



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## ABSTRACT

This paper studies the incentive effects of an organization's 'mission' on the effort provision of agents. Across treatments, I exogenously vary how much the agents' and their projects' missions match. In the first study, NGO employees are assigned the role of agents in an online, one-shot, principal-agent experiment. In the second study, I replicate the experimental design with a student subject pool. In both experiments the agents' effort choices are, for any given piece rate, increasing in their mission match. In a third study, a laboratory experiment with a finitely repeated principal-agent game with random matching, I do not find a motivational effect of missions, unlike in my first two studies.

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## 1. Introduction

Understanding what motivates people to devote time and effort to their work is of great interest to both academics and practitioners. Many employees do not only care about the money they earn, but also about the goals of their organization and the 'mission' they work for. Examples are teachers, who do not only want to transmit knowledge, but also values to their students; doctors, who commit themselves to saving their patients' lives; and employees at numerous non-profit and non-governmental organizations (NGOs), who explicitly work for a good cause. It is therefore important to understand how missions affect workers in order to properly include these in the design of optimal incentive schemes.

Recent models suggest that employees work harder if their mission coincides with the mission of the organization they are working for. [Akerlof and Kranton \(2005\)](#) argue that employees who identify with the goals of their organization require lower powered incentives to do their jobs properly. [Besley and Ghatak's \(2005\)](#) model specifically suggests that missions and monetary incentives can be substitutes for such employee. On the one hand, this entails that, for given incentives, motivated employees exert higher efforts. On the other hand, this implies that organizations can economize on monetary incentives if their employees are motivated by their missions.

Several empirical studies provide evidence suggesting that organizations' missions may affect employees' decisions in the public sector and non-profit organizations. [Serra et al. \(2011\)](#), for instance, observe that doctors and nurses in the non-profit sector earn lower wages than comparable health workers in the for-profit sector. [Gregg et al. \(2011\)](#) show that,

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controlling for income, non-profit sector employees work more unpaid overtime than equivalent workers in the for-profit sector. Further studies document that public sector organizations provide fewer and lower performance related incentives, such as merit pay and wage differentials (e.g., [Burgess and Metcalfe, 1999](#); [Leete, 2000](#)).<sup>1</sup>

This paper complements and extends the existing studies by presenting the results from three experiments in which the degree to which an agent's and an organization's mission match is exogenously varied. The experimental setup allows me to study the impact of a mission on effort provision in a controlled environment. First, I investigate agents' behavior outside their usual work place. This allows me to rule out that their decisions are primarily driven by reputational concerns. In empirical studies, this might not always be the case. Some of the employees considered in those studies might engage in non-profit organizations for low monetary incentives only to upgrade their CV and to obtain a better paid job later in their career. Second, my experimental design allows me to abstract from sector-specific contractual forms. Most of the empirical papers, in contrast, study employees from the public sector. Those organizations may refrain from providing higher monetary incentives to their employees for reasons that are independent of [Besley and Ghatak's \(2005\)](#) incentive substitution argument.

For my first experiment I recruit a unique subject pool of full-time employees from a non-profit humanitarian organization. They participate in an internet-based one-shot principal-agent experiment and assume the role of agents. The principals' role is assigned to students. Across treatments, I vary the degree to which an agent's and an organization's mission coincide exogenously. In the main treatment, called *Mission Match Treatment*, the agents' efforts generate a donation to their favorite aid project from the humanitarian organization where they work. In the control treatment, called *Low Mission Treatment*, the agents' efforts generate a donation to a local cultural project whose mission is independent of their humanitarian organization's mission. The match between the agents' and the organizations' mission in that treatment is thus comparatively low. Given any piece rate, I find that agents choose significantly higher efforts in the *Mission Match Treatment* than in the *Low Mission Treatment*.

To further disentangle a potential self-selection effect from the pure incentive effect of a mission, I replicate the experiment with student subjects in the role of agents. Again, the agents' efforts are increasing in their mission match, suggesting that the positive effect of a mission match on efforts stems from the mission's incentive effect and is independent from a potential selection effect inherent in the subject pool of NGO employees.

## 2. Related literature

My findings corroborate results from experimental studies applying real-effort designs. [Carpenter and Gong \(2016\)](#), for instance, use the political campaigns of the two major party candidates from the 2012 US presidential elections to create a high and low mission match to work projects. They find that subjects whose political mission matches that of the candidate they are working for are significantly more productive in preparing campaign mailings than subjects who work for a candidate with the opposite political preferences. [Tonin and Vlassopoulos \(2015\)](#) let their participants enter bibliographic records in an online repository platform and implement a mission in the form of donations to a charity. They similarly find that both lump-sum and performance-based donations significantly increase their subjects' performance.

Laboratory experiments using abstract, chosen effort designs come to similar results. [Koppel and Regner \(2013\)](#), for instance, also model a firm's mission using donations and find that workers reward their firms' missions with increased effort choices. However, in their gift-exchange setup with only fixed wages the authors cannot study whether a worker's mission is a substitute for performance pay. [Fehrler and Kosfeld \(2014\)](#) focus on this particular question. In their experiment principals and agents are randomly matched for ten rounds. In each of the rounds, the principal selects a fixed wage and a piece rate, and the agent subsequently chooses his effort level. In the main treatment, the agent's effort generates an additional donation to a non-profit organization of the agent's choice. In the control treatment, the generated donation is paid to a randomly selected student. Contrary to the previously mentioned experimental studies, [Fehrler and Kosfeld \(2014\)](#) find no evidence of higher effort provisions in the main treatment.<sup>2</sup> To connect my findings to their setup, I describe in [Section 8](#) the results from a supplementary laboratory experiment. In this I combine important features of [Fehrler and Kosfeld's \(2014\)](#) experiment and my experimental design. The results suggest that the experimental feature of repeated decision making may decrease the agents' responsiveness to mission incentives.

## 3. Incentives and motivated agents

Consider the following model, which is based on [Besley and Ghatak \(2005\)](#). There are two parties, a principal and an agent who is protected by limited liability. The principal offers the agent a contract, which specifies a fixed wage  $w \geq 0$  and a piece rate  $p \geq 0$ . This corresponds to the actions available in the experiment and excludes the theoretical case in which the principal sells the job to the agent. The agent then chooses effort  $e \geq 0$  with associated effort costs  $c(e) = \frac{e^2}{2}$ . The agent's effort

<sup>1</sup> Moreover, a large strand of theoretical and empirical literature particularly focuses on employees from the non-profit and public sector and studies their altruistic and prosocial motivations to work, see for instance [Auriol and Brilon \(2014\)](#), [Bénabou and Tirole \(2006\)](#), [Delfgaauw and Dur \(2007\)](#), [Delfgaauw and Dur \(2008\)](#), [Dur and Zoutenbier \(2014\)](#), [Dixit \(2002\)](#), [Francois \(2000\)](#), [Francois \(2007\)](#), [Hansmann \(1980\)](#), [Murdock \(2002\)](#), [Prendergast \(2001\)](#), and [Prendergast \(2007\)](#). Furthermore, [Francois and Vlassopoulos \(2008\)](#) and [Perry et al. \(2010\)](#) provide extensive surveys of the recent literature on the concept of so-called 'public service motivation'.

<sup>2</sup> In an additional experiment they find that only agents who self-select into the (costly) mission-oriented contract from the former main treatment increase their effort levels.

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