

Trier Virtual Workshops in Economics – TriECON



Programme



IAAEU
Institute for Labour Law
and Industrial Relations
in the European Union

Workshop on Organizations, Incentives and Performance Pay

Institute for Labour Law and Industrial Relations in the European Union | Trier University

Workshop on Organizations, Incentives and Performance Pay

20th November 2020

Institute for Labour Law and Industrial Relations in
the European Union (IAAEU)
Trier University, Campus II
Behringstraße 21
54296 Trier

Welcome to the Institute for Labour Law and Industrial Relations in the European Union

The Institute for Labour Law and Industrial Relations in the European Union (IAAEU) was established as a public foundation in 1983 and is funded by the state government of Rhineland-Palatinate. While being a public foundation, the IAAEU is also a research institute of Trier University and is situated in the heart of the Petrisberg Technology Park on Campus II. The IAAEU comprises two working groups of which one engages in research in the area of European labour law (Legal Team) and one engages in the theoretical and empirical analysis of personnel and labour economic issues (Economics Team). Depending on the research questions and the available data the economists rely on experimental data drawn from the experiments conducted in the institute's laboratory or on survey and corporate data. Since January 2012 Laszlo Goerke is one of the directors of the IAAEU and head of the Chair of Personnel Economics at Trier University. He is also a research fellow of the Institute of Labor Economics (IZA) and the CESifo Group Munich.

For detailed information have a look at our website: <https://www.iaaeu.de/en>

Registration

To register for the workshop, please use the following form:

[Registration form](#)

You will receive a confirmation email once your registration is noted.

The workshop will take place online via Zoom software. Information on how to log in will be sent around one day before the workshop.

Please refer to page 8 for more organizational information.

Schedule – Workshop on Organizations, Incentives and Performance Pay

Friday, November 20th 2020

08:30 – 08:45	Welcome and Opening
08:45 – 10:15	Session I
10:15 – 10:40	General Discussion + Short Break
10:40 – 12:10	Session II
12:10 – 13:20	General Discussion + Lunch Break
13:20 – 14:50	Session III
14:50 – 15:15	General Discussion + Short Break
15:15 – 16:45	Session IV
16:45 – 17:15	General Discussion + Farewell

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08:30 – 08:45 **Welcome and Opening**

08:45 – 10:15 **SESSION I:** *(SESSION CHAIR: LASZLO GOERKE)*

Matthias Kräkel: “Team Diversity and Incentives”

Florian Englmaier: “A large-scale Field Experiment on Leadership and Team Performance in Non-Routine Analytical Team Tasks”

10:15 – 10:40 **General Discussion + Short Break**

10:40 – 12:10 **SESSION II:** *(SESSION CHAIR: NORA PAULUS)*

Henrik Vetter: “Optimism and Incentives in the Firm”

Alberto Palermo: “On the Welfare Effects of Adverse Selection in Oligopolistic Markets”

12:10 – 13:20 **General Discussion + Lunch Break**

Programme

13:20 – 14:50 **SESSION III:** (*SESSION CHAIR: YUE HUANG*)

Anastasia Danilov: “Affirmative Action Policies, Productive Effort, and Sabotage in Tournaments: An Experiment”

Bernd Frick: “Competition Format, Prize Money and Self-Selection: Empirical Evidence from Show Jumping”

14:50 – 15:15 **General Discussion + Short Break**

15:15 – 16:45 **SESSION IV:** (*SESSION CHAIR: ALBERTO PALERMO*)

Anna Rohlfing-Bastian: “Delegation of Task Allocation Authority and the Value of Communication when Performance Measures are Imperfect”

Nick Zubanov: “What Employee Referral Programs do?”

16:45 – 17:15 **General Discussion + Farewell**

Organizational Information

Instructions for Presenters:

All sessions will be chaired by IAAEU staff.

We scheduled 45 minutes for each paper:

- 30 minutes for your presentation and 15 minutes for questions.

The workshop will take place online via Zoom Software.

In case of unforeseen technical problems, our IT team is available during the workshop:

Email: schultze@iaaeu.de

Tel.: (+49) 651 / 201 - 4755

Abstracts

Session I:

Lorens Imhof, Matthias Kräkel: “Team Diversity and Incentives”

We analyze how the degree of - task-related or bio-demographic - team diversity influences the team outcome. We abstract from complementary skills and mutual learning to focus on a novel benefit of team diversity. If the employer possesses only unverifiable information about the team members' individual contributions to team outcome, he cannot employ explicit incentive schemes. Instead, he has to make use of career competition to motivate the team. Our analysis of teams of arbitrary size reveals incentive effects that do not exist in the well-studied case of teams of size two. We show that in teams with more than two members diversity will always have a positive effect on the efforts of some members even though diversity leads to an unbalanced career competition. For moderate degrees of diversity, this effect outweighs all potential negative incentive effects. This result shows that the employer prefers a positive degree of diversity for pure incentive reasons.

Florian Englmaier, Stefan Grimm, Dominik Grothe, David Schindler, Simeon Schudy: “A large-scale Field Experiment on Leadership and Team Performance in Non-Routine Analytical Team Tasks”

Leadership has been considered a promising tool to improve team performance in complex tasks, but leaders and leadership styles are chosen endogenously in many team work environments. To uncover the causal effect of such endogenous leadership choices, we conduct a field experiment with more than 280 teams (1250 individuals) performing a complex non-routine task. We randomly encourage teams to decide on a leader and find that teams in treatment are significantly more likely to finish the task, and finish the task also more quickly. Leadership appears to influence team organization but does not reduce teams' willingness to “explore” original solutions.

Abstracts

Session II:

Henrik Vetter: “Optimism and Incentives in the Firm”

We ask about corporative incentives in the divisional firm that sells competing brands like for example VW and Audi. The novel aspect of our paper is that one manager is over-optimistic. We ask if owners should correct for cognitive bias in managerial decision in one or both divisions. In this respect we consider demand uncertainty as well as the case where cost is stochastic.

On cognitive bias there are qualitative differences in the way that prices are affected; that is, prices are distorted differently in the situations of demand and the situation of cost uncertainty, respectively. In a numerical example we show that incentives are distorted away from profit maximization by a fairly large margin. On the other hand, the loss of rewarding managers on the basis of corporate profit alone is small to modest.

Marco de Pinto, Laszlo Goerke, Alberto Palermo: “On the Welfare Effects of Adverse Selection in Oligopolistic Markets”

We consider a principal-agent relationship with adverse selection in firms, which sell their output in a homogeneous Cournot-oligopoly. In such a setting, the output market imperfection and the existence of asymmetric information cause distortions. We find that asymmetric information may mitigate or more than compensate for the impact of market power. Hence, welfare in case of asymmetric information can exceed welfare in the absence of such asymmetry in information, that is, in the absence of adverse selection. This outcome depends on the spread between abilities and the distribution of types in the economy. This finding persists even when the number of competitors in the market is such that the welfare with complete information about types reaches its maximum.

Abstracts

Session III:

Subhasish M. Chowdhury, Anastasia Danilov, Martin Kocher: “Affirmative Action Policies, Productive Effort, and Sabotage in Tournaments: An Experiment”

The main aim of affirmative action (AA) policies in tournaments is to enable disadvantaged groups to compete with their privileged counterparts. Existing research documents that incorporating AA can result in more egalitarian outcomes and higher efforts. However, the effects of the introduction and removal of AA are open questions. Also unclear is how AA's frame, as a head-start for a disadvantaged group or a handicap to the privileged group, affects behavior. We examine these questions experimentally in which subjects participate in a real-effort tournament and have the opportunity to sabotage each other. The ability-based AA (head-start or handicap) is either introduced or cancelled in the middle of the experiment. We find that ‘balanced’ competition does not necessarily motivate the contestants to work harder. High performers who had some previous competition experience in an AA free environment significantly reduce their effort after the introduction of AA. Additionally, we observe less sabotage under the AA regimes when the competition started right away under the AA conditions. However, the cancellation of AA significantly intensifies the sabotage. Finally, there are no systematic differences in reactions towards the handicap and the head-start.

Bernd Frick, Enja-Marie Herdejürgen: “Competition Format, Prize Money and Self-Selection: Empirical Evidence from Show Jumping”

In this paper, we use data from the last two seasons before and the first seven seasons after a significant change in the competition format in professional show jumping to compare rider quality at the start of a particular event, i.e. the first jumping round. We seek to answer the question whether (and to what extent) the introduction of a different competition format (“Grand Slam”) providing higher prize money and additional bonus payments to the winner of two (or even three) consecutive events in the world’s most prestigious and lucrative show jumping events (Aachen, Geneva and Spruce Meadows) has resulted in an increase in the average quality of the starters. Our findings suggest that – in line with tournament theory – contests have indeed the anticipated self-selection effect. In case the number of starters is limited, an increase in the prize money combined with additional bonus payments awarded for an outstanding performance leads to an increase in the quality of the entire field, because more able athletes now have a more pronounced incentive to participate in a particular event. More precisely, it appears that the average quality of the field (as measured by the world cup points in the previous season) has increased significantly following the introduction of the Grand Slam while its heterogeneity (as measured by the coefficient of variation of the world cup points in the previous season) has considerably decreased. Perhaps surprisingly, the increase in prize money is more important in this context than the availability of bonus payments.¹¹

Abstracts

Session IV:

Anna Rohlfig-Bastian, Anja Schöttner: “Delegation of Job Design and the Value of Communication when Performance Measurement is Imperfect”

We consider a multitask model with non-verifiable, private, post-contract, pre-decision information and imperfect performance measurement and identify conditions under which delegation of job design is preferred over centralization. A principal contracts with an agent who performs effort in a main task and can optionally perform effort in a second task. After contracting, the agent becomes privately informed about his effort costs for performing the second task. The principal can either decide centrally about the job design (based on common beliefs about effort costs) or delegate the decision whether to perform effort on the second task to the agent. We find that delegation, although it entails a loss of control, is preferred over centralization when the performance measure is sufficiently incongruent and that the principal can even achieve a benchmark result with delegation that would be obtained with ex-ante observable effort costs. Moreover, we show that the benefit of communication in a centralized setting crucially depends on the nature of the congruity problem. As a consequence, delegation may be even preferred over communication-based centralization.

Guido Friebe, Matthias Heinz, Mitchell Hoffman, Nick Zubanov: “What Employee Referral Programs do?”

Employee referral programs (ERPs) are randomly introduced in a grocery chain. Larger referral bonuses increase referrals and decrease referral quality, though the increase in referrals from having an ERP is modest. However, the overall effect of having an ERP is substantial, reducing attrition by roughly 15% and decreasing firm labor costs by up to almost 3%. This occurs, partly, because referrals stay longer than non-referrals, but, mainly, because all workers stay longer in treated than control stores, even among stores where no referrals are made. The most-supported mechanism for these indirect effects is that workers value being involved in hiring.

Participants

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Participants

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Notes

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