Job Mission as a Substitute for Monetary Incentives: Experimental Evidence.

Abstract:

Are monetary and non–monetary incentives used as substitutes in motivating effort? I address this question in a laboratory experiment in which the choice of the job characteristics (i.e., the mission) is part of the compensation package that principals can use to influence the agents’ effort. Principals offer contracts that specify a piece rate and a charity – which can be either the preferred charity of the agent, or the one of the principal. The agents then exert a level of effort that generates a profit to the principal and a donation to the specified charity. My results show that the agents exert more effort than the level that maximizes their own pecuniary payoff in order to benefit the charity, especially their preferred one. The principals take advantage of this intrinsic motivation by offering lower piece rates and by using the choice of the charity as a substitute to motivate effort. However, I also find that because of fairness considerations, the majority of principals are reluctant to lower the piece rate below a fair threshold, making the substitution between monetary and non–monetary incentives imperfect. These findings have implications for the design of incentives in mission–oriented organizations and contribute to our understanding of job satisfaction and wage differentials across organizations and sectors.