

Performance Pay and Multidimensional Sorting Revisited: the Role of Choice Sets, Preferences and Personality Traits

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Abstract

This paper builds on Dohmen and Falk (2011) and studies how sorting into different payment schemes not only depends on productivity, preferences and personality, but also on the menu of alternative contracts. Specifically, we elicit individuals' sorting decisions when they can choose either between a fixed payment (F), a piece rate (P), and a tournament (T), or any of the three possible binary combinations of these contracts. That is, individuals make a sorting decision in 4 contractual environments: TFP, TF, PF, TP. This allows us to investigate the change in sorting patterns when the menu of contracts changes. We also extend the work of Dohmen and Falk (2011, AER) by considering other personality traits or preferences, like loss or ambiguity aversion. We find that sorting patterns depend on the available alternatives in ways predicted by economic theory. For instance, individuals who choose the tournament in environment TP and the fixed payment in environment TF, are much less productive than individuals who choose the tournament in both worlds. Likewise, individuals who prefer the piece rate in environment TP and choose the tournament in TF are more risk averse than individuals who choose the tournament in both worlds. The effect of the available alternative(s) on the sorting pattern is also meaningful in economic terms. In each of the three pairs of worlds that share a common payment scheme, between 50% and 60% of individuals who choose the common payment scheme in at least one of the worlds do not make the same choice when the alternative payment scheme changes. So, a change in the alternative available contract(s) has a substantial impact on the subject pool attracted by a certain alternative, and induces substantial switching. We also document that risk attitude, relative self-assessment, and productivity are the most important sorting dimensions, while other personality characteristics and economic preferences only play a role in specific environments. For instance, loss aversion greatly reduces the probability of choosing a tournament when the alternative contract is a fixed payment scheme, but plays no significant role in other contractual environments.

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