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Paying Respect

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Why do people work? Economic theory generally, and the principal–agent model specifically, emphasize the role of material incentives. The standard assumption is that people work hard only if they receive monetary compensation for doing so. However, a substantial body of evidence contradicts the standard economic model. Many salaried academics, for example, work diligently year after year, continuing to exert themselves as they approach retirement, although financial incentives are then usually absent.

We will argue that while economists have been right to focus on incentives, they have been wrong to focus so exclusively on material incentives. While workers appreciate monetary rewards, they also get utility from what (they believe that) others think about them. Thus, employers can pay their workers with a combination of monetary rewards and respect. Employers can help to fulfill employees' desire for respect in at least four ways, each of which sheds some light on observed practices: First, attention from an employer can enhance the employee's sense of being respected for good performance. Second, a manager or the employer can increase the value of respect by proving to be a worthy audience; for example, hard-working employees appreciate the respect of hard-working managers, and idealistic workers appreciate the respect of an idealistic employer. Third, the employer can influence the norms of respectability—that is, what traits gain respect in a certain workplace. Fourth, employers can affect what information about an

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employee is available to others, and therefore, the respect or esteem that the employee receives from others.

We begin by laying out a body of evidence that, taken as a whole, makes a strong case that respect matters in the workplace, above and beyond material rewards. We discuss evidence that workers respond to attention, symbolic rewards, and trust—and even that material incentives in some cases lead to less effort. Building on our theoretical work in Ellingsen and Johannesson (forthcoming), we then argue that many of these observations can be captured in a standard principal–agent model, once the principals and the agents are assumed to care about respect or esteem as well as money.

Our approach is an example of behavioral agency theory, which includes two main lines of research. The *social preference* approach studies the impact on contracts of other-regarding motives such as altruism, competitiveness, reciprocity, or fairness (Akerlof, 1982; Rotemberg, 1994; Auriol and Renault, 2001; Englmaier and Wambach, 2005; Fehr, Klein, and Schmidt, 2007). The *social esteem* approach focuses instead on the effects of self-regarding motives such as pride and shame. The two approaches overlap to some extent, because altruism and fairness are praiseworthy and selfishness is shameful, but in this paper we focus more on social esteem than on social preferences. Of course, the basic insight that workers care about receiving respect from others is an old one, and not only in psychology; for references to the economics and philosophy literatures on esteem, see Frey (1997) and especially Brennan and Pettit (2004).[1] However, the task is just getting underway of modeling systematically how respect is paid by employers, how it is received by employees, how it complements monetary payments, and how these interactions manifest themselves in labor markets.

Evidence that Respect Matters in the Workplace

A variety of worker surveys suggest that workers want more than just monetary compensation, and in particular that they want a sort of appreciation and recognition from their employers that conveys "respect." For example, "full appreciation for work done" is the only job reward factor that consistently ranks among the top two motivators for U.S. workers throughout the post-World War II period (Wiley, 1997). Among ten factors, interesting work was considered somewhat more important in the 1980s, and good wages were at the top of the list in the 1990s, but neither

[1] It is likely that a human desire for social esteem—that is, to feel proud and to avoid shame in the context of broader society—evolved millennia ago, presumably because approval has been associated with material and sexual benefits. For anthropological evidence, see Fessler (2004) and the references therein. For some formal evolutionary arguments, see Fershtman and Weiss (1998a,b). However, the consequences of social esteem preferences can be studied without a theory of their origin. Throughout, we therefore leave open the issue of *why* people want to make a favorable impression.

interesting work nor good wages were among the top four reward factors in more than one decade out of three. Likewise, Elsdon (2002) reports that lack of recognition or appreciation is a major reason why people leave organizations, second only to lack of career development opportunities. Financial motives occupy fourth place.

In this section, we describe evidence that employees value and respond positively to signs of respect, such as symbolic awards, attention, and trust. Conversely, workers sometimes respond negatively to what they perceive as signs of disrespect, including intrusive managerial control and even, in some cases, monetary incentives.

Symbolic Rewards

Popular management books revel in symbolic awards. Examples include Bob Nelson's (1994) *1001 Ways to Reward Employees*, Dianna Podmoroff's (2005) *365 Ways to Reward and Motivate Your Employees Every Day: With Little or No Money*, and Cindy Ventrice's (2003) *Make Their Day! Employee Recognition that Works*. The huge market for these books and their authors' speeches and consultancy services strongly suggest that the economic theory of motivation is incomplete.

Increasingly, the messages of these popular management books are backed up by systematic evidence. Many field experiments have investigated the extent to which attention can be reliably used as a reward. Markham, Scott, and McKee (2002) provide an apt illustration. Over a year, studying 1100 workers in four cut-and-sew garment factories in the mid-Atlantic area, the authors compare the effect of a public recognition program with three types of controls. Inspired by the advice of practitioners, detailed in the rich if nonacademic management literature, the researchers developed a public recognition program with three main ingredients: personal attention, public celebration, and mementos. All employees with perfect attendance during an entire month had their names posted with a gold star for that month, and employees with no more than two absences during a quarter received a personal card notifying and congratulating them. At the end of the year, a public plant-wide meeting recognized good and perfect attendance. Employees with a perfect attendance record received engraved gold necklaces (females) and penknives (males), whereas employees with a good attendance record received similar mementos in silver. The program reduced absenteeism by about 40 percent and was popular with the workers. The three control treatments produced only insignificant changes in absenteeism.

The analysis of such behavioral management interventions has been a lively area of management science for more than two decades. By now, more than 100 separate scientific studies have considered rewards of money, feedback, and social recognition. Although many studies consider only one reinforcer, and social recognition is less frequently studied than money and feedback, a survey of 72 behavioral management studies by Stajkovic and Luthans (2003) concludes that

social recognition has a positive effect on behavior both alone and in combination with other reinforcers.

Borrowing a term from cultural anthropology, the company can *hypercognize* certain worker traits—that is, it can determine to some extent what traits are highly recognized within this organization—and thereby shape the organizational culture. When the company gives prizes for attendance, as in the study by Markham, Scott, and McKee (2002), it is utilizing its power to define the sources of esteem.[2]

For most workers, bonuses and stock ownership plans yield very little economic return to their own effort, and are thus primarily symbolic (Baron and Kreps, 1999, p. 264). However, by rewarding group effort rather than individual effort, the company conveys the message that cooperation is esteemed more highly than competition. Indeed, we believe that if such weak incentives were awarded on an individual basis, they would be interpreted as disrespectful and could even backfire. Individual material incentives only work well if they are sufficiently strong or if the employer can use other means to counteract the impression of disrespect; otherwise, symbolic rewards can be preferable.

Attention

Some of the earliest work on human relations in the workplace started out to examine how physical work conditions affected employees, but ended up studying the relationship between workers' productivity and the amount of attention being paid to them. The so-called Hawthorne experiments were carried out between 1924 and 1932 at the Hawthorne Works, a plant of the Western Electric Company near Chicago, Illinois. The experiments initially set out to investigate the effect of working conditions—such as lighting—on productivity. Surprisingly, both more and less light appeared to cause higher worker effort. When workers were interviewed about their motives, a common response was that they were pleased to receive so much attention and therefore tried to do their best. The classic descriptions and interpretations of the Hawthorne experiments are Roethliesberger and Dickson (1939) and Mayo (1945); for a compact account, see Scott (2003, pages 61–62). According to Scott, "[I]t is only a slight exaggeration to suggest that the academic field of industrial sociology first saw the light of day at the Hawthorne plant."

The Hawthorne experiments themselves have been controversial (Jones, 1992), and subsequent empirical studies attempting to identify Hawthorne effects in the field have reached mixed results. Perhaps it is just too difficult to separate the

[2] Some writers suggest that economic theories themselves are part of society's culture and therefore affect behavior. According to Pfeffer (1994, chap. 4) and Ghoshal (2005), economics affects the values and expectations of managers, and managers' expectations tend to be self-fulfilling. If employers treat employees as unscrupulous opportunists, opportunism flourishes. And if business school teachers assume that there is a conflict of interest between owners and managers, then MBA-trained managers become more prone to pursuing their own goals. If so, there is all the more reason to consider carefully the assumptions of principal–agent theory.

pure effect of increased employer attention to workers from the promise of a reward or the threat of punishment. If workers think that they are being monitored more closely because the employer is looking for ways to reduce worker rents, increased monitoring may even have negative effects (Enzle and Anderson, 1993).

Evidence from a variety of laboratory and field experiments settings in both psychology and economics can also be informative about the basic psychological mechanisms. However, this evidence can only be extrapolated to the workplace with caution. Many studies attempt to isolate a pure effect of observation on behavior in a context without monetary rewards, which is obviously different than a workplace that offers a combination of the two. Also, the observation that occurs in these studies is often by a party who is more of a peer than an authority figure, and many people react differently to peers than to authorities.

With those caveats in mind, we note that Zajonc (1965) is prominent in the psychological literature for arguing that being observed affects performance. Zajonc offers evidence that the presence of others has a beneficial effect in the case of well-learned tasks, but a detrimental effect in the case of novel tasks. Since the former case is probably the most relevant for the workplace setting, this evidence is congruent with our argument. Relatedly, Wicklund and Duval (1971) argue that the presence of spectators increases the performer's awareness of the gap between attained performance and ideal performance, producing an unpleasant feeling. The performer exerts effort in order to reduce the unpleasantness. We refer to Seta and Seta (1995) for a more extensive discussion of the sizeable subsequent literature.

Economic laboratory experiments offer some insights into the effects of being observed, too. Falk and Ichino (2006) study experimentally the behavior of German high school students conducting a simple task without a monetary incentive. They find that especially the worst performers work harder in the presence of others than by themselves. In the dictator game, one subject (the dictator) decides how to share a sum of money with another subject (the recipient). The dictator is free to choose any division. A dictator who is less anonymous—that is, more observed—tends to give more (Hoffman, McCabe, Shachat, and Smith, 1994). In field studies of charitable donations, increased publicity also causes higher donations (Harbaugh 1998; Soetevent, 2005).[3]

While these findings represent evidence of positive audience effects, they do not prove that people consciously seek respect or esteem. Indeed, some of the sensitivity to attention appears to be instinctive. Haley and Fessler (2005) document

[3] Social esteem effects seem to be at work even under conditions of great anonymity, perhaps not even requiring that the actor and the audience are present at the same time. One obvious example is that many people leave a tip at restaurants in a foreign place, although they will never visit the place again, and nobody has recognized them. Many people care about the judgment of others, even when they are completely anonymous. For an intriguing piece of experimental evidence, see Dana, Cain, and Dawes (2006).

that a set of painted eyes induces more generous behavior in a dictator game experiment. Bateson, Nettle, and Roberts (2006) similarly document that, compared to a control image, an image of a pair of eyes almost tripled the contributions to an honesty box used to collect money for drinks in a university coffee room.

Trust

The literature on human relations has long suggested that leadership style can be important. A series of empirical studies reported by Stogdill and Coons (1957) found that high levels of supervisor trust, friendship, and respect were associated with better performance, at least if combined with organizational skills. Later research failed to confirm the optimistic conjecture that a trustful supervisory style is generally more profitable than a more controlling style (Hollander and Julian, 1969). However, from the point of view of conventional agency theory, it is problematic why trust should *ever* induce trustworthiness.[4]

The management literature is replete with stories in which trust has been beneficial. We have been impressed with the case of Svenska Handelsbanken, one of Sweden's largest banks, under the leadership of Jan Wallander. In 1970, soon after taking over as chief executive officer, Wallander abandoned bank budgeting altogether and delegated most lending decisions all the way down to the personnel at each local office, arguing that trust promotes initiative and trustworthiness. The strategy helped turn around the troubled bank. Since then, the bank has remained highly profitable. For an autobiographical account, see Wallander (2003).

A more frequently cited example is David Packard's (1995, p. 135) account of how he became convinced that General Electric had made a mistake in distrusting their employees. "GE was especially zealous about guarding its tool and parts bins to make sure employees didn't steal anything." As a result, stealing became almost like a sport. When Packard started Hewlett and Packard, "[T]he GE memories were still strong and I determined that our parts bins and storerooms should always be open."

Of course, trust will not always be rewarded. Some researchers report that a reduction in monitoring induces some workers to shirk more, and that it increases average shirking (Nagin, Rebitzer, Sanders, and Taylor, 2002). However, even in this work, a significant fraction of the workers do not take advantage of the increased incentive to cheat. Thus, the key issue with trusting behavior by managers is not whether the manager's trust is sometimes abused, but whether the benefits of trust are outweighed by the costs.

Economic experiments have helped to document and clarify the ways in which trust elicits trustworthy behavior. Early laboratory experiments considered behavior

[4] According to incomplete contract models, principals may delegate their power as a commitment to assure the agent of credible protection against future intervention by the principal. Such delegation is not a sign that the principal trusts the agent, but a device to enable the agent to trust the principal.

in the so-called trust game, originally devised by Berg, Dickhaut, and McCabe (1995). In this two-player game, the players start out with endowments e_1 and e_2 respectively. Player 1 then decides how much money x to transfer to Player 2. Player 2 receives ax, where the parameter a is set by the experimenter and is typically 2 or 3. Finally, Player 2 decides how much money y to transfer back. In the end, Player 1 thus gets a payoff of $e_1 - x + y$ dollars, whereas Player 2 gets $e_2 + ax - y$ dollars. Note that x is a measure of Player 1's trust, whereas y is a measure of Player 2's trustworthiness. The original study established a robust positive correlation between x and y.

A number of studies elucidate the underlying mechanisms by varying the sets of actions that are available to the players. Comparing two different choice sets for Player 1, McCabe, Rigdon, and Smith (2003) find that voluntary trust induces Player 2 to behave more trustworthily than involuntary trust. Fehr and Rockenback (2003) and Fehr and List (2004) conduct trust game experiments in which Player 1 has a choice whether or not to punish an opponent who returns less than their requested back-transfer. Falk and Kosfeld (2006) devise a related game in which Player 1 does not make any transfer at all, but can restrict the options of Player 2. All these experiments find that intentions matter, not just actions. When Player 2 recognizes that Player 1 actively chose to act in a trusting manner, that act is typically rewarded.[5]

Possible Negative Effects of Incentives

In some specific settings, monetary incentives actually seem to produce a negative effect on the desired outcome. For example, Titmuss (1970) famously argued that the supply of human blood decreased in the United States in the 1960s because altruistic blood donors resented the use of material payments. In a recent field experiment, Mellström and Johannesson (forthcoming) find that prospective female blood donors indeed respond negatively to a monetary incentive, whereas the behavior of potential male donors is largely unaffected.

Gneezy and Rustichini (2000b) present experimental evidence that a small material incentive can induce less effort than no material incentive at all. In their first experiment, a small positive piece rate for problem solving reduces the number of solved problems compared to a zero-pay benchmark. Likewise, in their second experiment, a small positive piece rate for collecting money to charity entails lower collection effort than does a zero-pay benchmark. Gneezy and Rustichini (2000a) conduct a field experiment in which daycare centers impose a monetary fine on parents who collect their kids too late. The imposition of the fine results in an immediate and significant *increase* in late collection; apparently when parents can pay to pick their children up later, they have less hesitation about doing so.

[5] Several other experiments document the effects of intentions. For example, Charness (2004) shows that intentions matter in gift exchange games.

Finally, Lepper, Green, and Nisbett (1973) find in an experiment, that children who have previously been rewarded for a task are less willing to conduct the task later. This finding echoes a previous experiment by Deci (1971), who found that people's desire to carry out a task diminishes if they have previously received monetary rewards for it, even if the reward was a surprise and did not constitute an incentive. For a survey of the vast subsequent literature, see Deci, Koestner, and Ryan (1999).

Extrapolating this kind of evidence to a typical workplace must be done with caution. But it does suggest that the display of certain desirable traits, such as concern for other people, will not be especially encouraged by monetary payments.

Worthy Managers and Organizations

Employees often value nonmonetary rewards, but sometimes they are an occasion for mockery. Employees value some kinds of attention, but not if that attention is perceived as intrusive or exploitive. Employees value trust, but some will take advantage of it. Employees value monetary rewards, but in certain settings such rewards can be counterproductive. One key determinant of whether employer actions are interpreted as showing respect or disrespect is the workers' perception of the character of their employers.

Some workers evidently care intensely about the public image of their top managers or their organization. In fall 2004, the news media in Sweden reported that the chief executive officer of the Red Cross in Sweden, Christer Zettergren, had chosen a Jaguar as his company car. Neither Zettergren nor other top management had anticipated that the brand of the car would be of any relevance to Red Cross workers or their trade unions. The car cost less than many other cars that would be viewed as acceptable. Yet the uproar was about the brand and not the cost. The conflict ended immediately when Zettergren changed the car to a less "fancy" brand.

Many Red Cross workers are idealists, and part of the value of working for Red Cross is the satisfaction of an idealistic image, both in their own minds and in the eyes of others. Indeed, employees in the nonprofit sector earn substantially less than they would in a comparable job in a for-profit company (Frank, 2003). From this perspective, Zettergren's behavior was problematic for two reasons. First, if outsiders were to believe that working for Red Cross is like any other job, fully compatible with a selfish and materialistic orientation, and perhaps even as well-paid, Red Cross workers would lose social esteem. Second, for some workers, when top managers are unwilling to make personal sacrifices this suggests that such managers will not truly appreciate the sacrifices that subordinates make. Presumably, one of the reasons for nonprofit incorporation is to send a clear signal that principals are willing to forgo economic surpluses.

Behavioral Agency Theory

The standard economic explanation for the above findings would typically go something like this: Workers care what employers believe about them, because these beliefs translate into wage raises and promotions (Holmström, 1982). The symbolic awards are only messages about which behaviors will yield material benefits in the future. While these explanations are partially true, the practitioners' own interpretations, as evidenced in the popular management books, are different. Moreover, the standard model fails to explain the evidence that trust sometimes induces trustworthiness; this failure is especially clear in the controlled game experiments.

Behavioral agency theory introduces a richer set of motivations into the principal–agent model. Researchers reexamine existing principal–agent models, but apply different utility functions. In doing so, theorists usually also relax the common assumption that all people have similar preferences. Much of the models' power is caused by heterogeneity; indeed, many of the results hold even if a majority of people have completely standard (purely selfish and materialistic) preferences.

Modeling Respect

The "social preference" approach introduces concerns for others into the utility function. The "social esteem" approach, which we pursue here, introduces instead (or in addition) a concern for what others think.[6] To understand the social esteem approach, consider the following relationship between a single employer and a single employee. The employer knows that the employee is inherently either mediocre or talented. The employee wants the employer to believe that he is talented. Since inherent traits are unobservable, the employer has to infer the employee's type from the employee's effort (or from some factor correlated with effort). Compared to the case in which the employer already knows the employee's talent, it can be shown that talented employees will tend to work harder for an uninformed employer. The intuition behind this result is that the fully informed employer's esteem for the employee is independent of effort, whereas the uninformed employer will only believe that the employee is talented if the effort is sufficiently great. (Otherwise, if the employee is too easily convinced about the employee's talent, even a mediocre employee would be tempted to exert effort in order to earn esteem.) In this precise sense, the uninformed employer pays respect in return for high effort.

The example makes clear why respect is not the same as praise. The employer can praise the employee without the employee feeling respected. Only if praise

[6] Seminal papers along these lines are Holländer (1990) and Kandel and Lazear (1992). However, these papers emphasize workers' relationships to each other, rather than their relationship to the employer or boss.

credibly reveals the employer's belief about the employee's talent does it convey respect. By implication, respect cannot easily be traded in a market. Instead, a satisfactory formal analysis of respect requires a signaling model, albeit one in which people care about others' beliefs directly, not merely the material consequences of those beliefs.[7] As a general proposition, this was pointed out (albeit in other contexts) more or less simultaneously by Bernheim (1994), Glazer and Konrad (1996), and Ireland (1994). Equipped with such a signaling model, it is straightforward to illustrate the above example mathematically.[8]

With this background, it should be apparent why employee attention can have a positive effect on employee effort. Suppose that the employee's effort (or a factor correlated with effort) is being observed with probability q. If q is zero, effort is incapable of affecting social esteem. As q increases, the effect of effort on the employee's expected esteem increases.

To create a role for symbolic rewards, we may assume either that the employee's concern for social esteem is affected by such symbols, or that the agent has many different characteristics, each of which may potentially be praiseworthy. For example, both talent and punctuality are praiseworthy, but a companywide campaign for punctuality can make respect in this domain relatively more important. Modeling corporate culture in this fashion would seem largely consistent with the analysis of Hofstede (1980).

Extending the model to account for the positive effects of trust is more demanding. In Ellingsen and Johannesson (forthcoming), we assume that both principals and agents differ in their degree of selfishness. Moreover, we make the key assumption that everyone dislikes appearing selfish in the eyes of others, *especially if these others are themselves not selfish.* We are then able to identify situations in which only relatively unselfish principals trust and only relatively unselfish agents behave in a trustworthy manner. In other situations, all types of principals trust, while only relatively unselfish agents behave in a trustworthy manner. Finally, in yet other situations, no type of principal will trust.

The logic works roughly as follows. An employer taking an action that appears to be selfish, like intrusive monitoring of workers to push for greater effort,

[7] Some economists are critical of signaling models, because they are frequently rejected by the data. We think that signaling models have too often been invoked in settings where they are likely to be inappropriate, such as financial markets. Since financial markets tend to aggregate information quite efficiently, it is unlikely that companies should have to engage in costly signaling to convey their information to the stock market. Our setting is very different, in that there is no aggregation of information, and the actor cares about the opinions of everyone in the audience.

[8] Let e denote effort, let $c_1 e$ denote a talented employee's effort cost, and let $c_2 e$ denote a mediocre employee's effort cost. Let $p(e)$ denote the employee's belief that the employee is talented—the employer's respect for the employee. Finally, let rp denote the employee's "utility of respect." Suppose there are no material rewards for effort. Under the assumptions that $0 < c_1 < c_2$ and $r > 0$, the only outcome to satisfy the so-called Intuitive Criterion is for a mediocre agent to exert no effort and for a talented agent to exert effort r/c_2, which is the smallest effort level that the mediocre agent would not want to mimic, even in return for maximum respect.

undermines the workers' incentive to signal their own unselfishness. Since workers care more about being highly esteemed by an unselfish employer, they may work harder under weaker material incentives. Generally, when control mechanisms are relatively ineffective, they will have only a modest effect in prodding selfish workers to exert somewhat higher effort, and this positive effect is outweighed by the reduction in effort by less selfish workers. As the control mechanisms become more effective, the benefit from improved control eventually dominates. At this point, all employers will benefit materially from imposing control. However, since employers also care about esteem, unselfish employers are still willing to forgo material benefits in return for more esteem.[9]

Finally, a principal–agent model along these lines allows principals to affect the esteem that their agents achieve from others in society. These others may not be able to observe the agent's performance directly, but may have access to a coarse measure of the agent's performance if one is provided by the principal. In corporations, awards and titles may partly serve the function of conferring a coarse signal of the esteem that the employee is due.

Directions for Future Research

Having begun to establish a formal framework, the next step is to develop further testable implications. Here are some that spring to mind:

First, if employers can pay in part with respect, there should be observable monetary tradeoffs. Employees should be willing to take jobs with high social status for less monetary reward than they would otherwise require, as previously noted by Fershtman and Weiss (1993). The marginal cost of inducing additional effort from employees motivated by social status is also lower. Some employees will care more about being paid respect than others. Presumably, equilibrium sorting as well as competition between firms affect the eventual outcome, as indicated by Besley and Ghatak (2005) in their analysis of mission-oriented firms and workers. Our approach is complementary to theirs as we offer a microfoundation for their assumption that mission-oriented employees prefer mission-oriented employers.[10]

A second possible extension of our analysis is an investigation of the relationship between performance and the structure of publicly observable nonmonetary awards. An analogy to grading and educational goals may be helpful here.[11] If the

[9] Other related models that address the puzzle that stronger material incentives can induce less effort include Bénabou and Tirole (2003, 2006), Fang and Moscarini (2005), and Sliwka (2007). In the psychology literature, Dickinson (1989) makes the related point that esteem considerations might explain the negative effects of past rewards on future interest in a task.

[10] Sorting becomes particularly important if workers care about local, relative respect; see Frank (1985) and Fershtman, Hvide, and Weiss (forthcoming).

[11] To the best of our knowledge there is little previous theoretical work on optimal grading and goal setting. The goal-setting literature is largely empirical and traditionally focuses on how to determine a single goal (although possible benefits of multiple goal levels have occasionally been discussed; Locke and Latham, 1990). Within a formal model, Costrell (1994) characterizes an optimal educational standard under the assumption of a binary (pass/fail) grading scale. In a recent contribution more

purpose is to extract the maximum effort from a particular skill group, then the best grading scheme may be a pass/fail system with the requirements for a pass set at the highest effort level that people in this group are willing to exert. If the principal cares about the effort of all types, a finer grading scheme may be optimal, but the optimal grading scheme is generically coarser than the underlying distribution of types (Zubrickas, 2007). Similarly, the ways for employers to show respect can focus on different parts of the workforce or on different skill levels, depending on the underlying main problems of production.

A third issue is that the theory so far focuses on preferences about what other people think. It seems likely that people also care about what other people say. Recent experiments isolate a significant positive effect of anticipated verbal reactions on behavior in a dictator game (Xiao and Houser, 2007; Ellingsen and Johannessen, 2007). The analogy is that anticipations of praise or disapproval by the employer will affect employee's effort. A seemingly straightforward way to include such concerns in the model is to let the concern for social esteem depend on features of the feedback, such as emotional strength and proximity.

Final Remarks

Personnel economists have usually sought to analyze human resource management under the maintained assumption that employers and employees hold selfish and materialistic preferences, which they combine with arguments about incentives and information (as discussed by Lazear and Shaw in this issue). In the market for ideas, personnel economics has been doing well, but it is not a dominant paradigm. Business schools still largely employ psychologists and sociologists to teach human resource management. Likewise, economists are conspicuously absent as authors of popular books on workforce motivation. In comparison to the commercial success of microeconomists in the fields of market design, antitrust, and corporate finance, personnel economists are lagging.

Like Baron and Kreps (1999), we believe that the segmentation between economic and psychological analyses of human resource management has been detrimental. By looking only at one aspect of a problem, the analysis becomes partial, and omitted factors induce biased interpretation even of the factors under consideration. Moreover, students get a confusing picture of the field when teachers are ignorant of each others' perspectives.

Behavioral agency theory seeks to bridge the gap between the economic and psychological approaches to human resource management. If nothing else, we

closely related to ours, Dubey and Geanakoplos (2004) characterize the optimal grading scale for students who compete with each other and primarily care about relative performance. For an empirical study of how grading standards affect performance, see Figlio and Lucas (2004).

hope to have illustrated the general point that such bridges are desirable and feasible. Our more specific argument is that economic analysis is wrong to insist that all people always work for money only. While the simplification is sometimes innocuous, at other times it produces large discrepancies between theory and evidence. The alternative assumption that respect matters too, at least to some people in some places some of the time, helps us account for several such puzzles.

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