

# Making the right call: The heterogeneous effects of individual performance pay on productivity

## IFAU WP 2025:6

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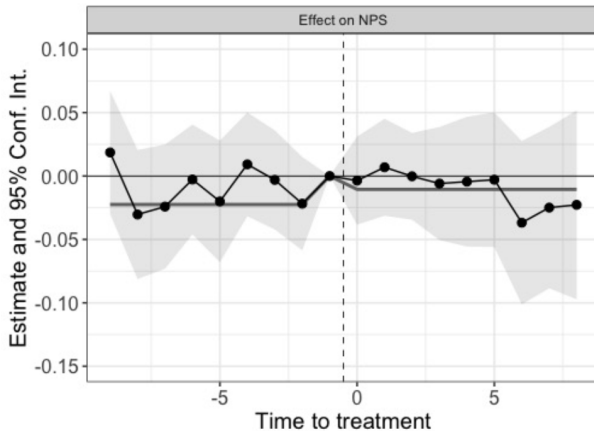
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# This project

- We know that performance-related pay (PRP) works: **monetary incentives improve performance.**
- But: costs of additional effort differs between individuals
- This study:
  - Question: **do low- and high-skilled individuals react differently to PRP?**
  - Exploit the introduction of performance thresholds at a large service firm.
  - Monthly personnel data includes performance measures
  - Staggered Difference-in-difference estimation to identify causal effect of PRP
- **Why is it important?**
  - To inform policy and HR: Does PRP actually change behavior in this context?
  - To understand inequality at work: which workers gain from performance pay?

# Main results

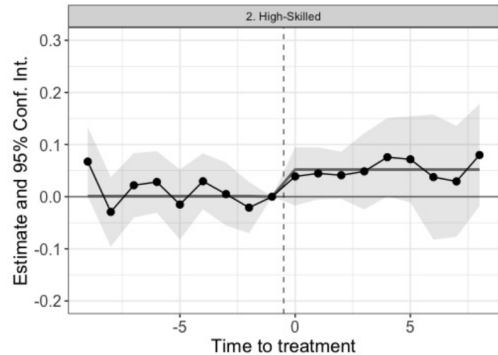
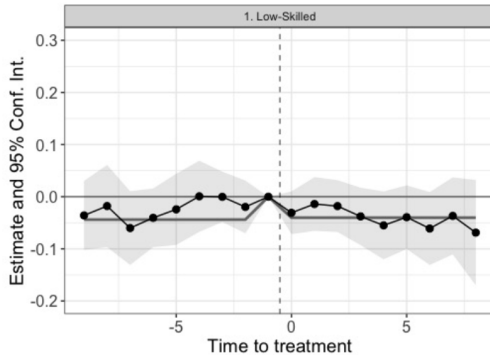
Zero average effect for this PRP:



(a) Service quality ( $y_{it}^{QUAL}$ )

# Main results

But: effects for high-skilled individuals (easier to reach performance thresholds)



## Main results

- PRP may not work for all workers
- We also show that PRP creates negative spill-overs on non-incentivized outcomes
- Calibration of PRP crucial!