Contents

List of Figures ix
Preface xiii

I The Employee as a Basic Building Block of Economic Organizations 1

1 Individual Differences between Employees 3
  1.1 Economic Organizations 4
  1.1.1 The Basic Principles of Economic Organizations 5
  1.1.2 The Basic Building Blocks of Economic Organizations 7
  1.2 The Employee as a Complex Individual 10
    1.2.1 Individual Differences in Needs 12
    1.2.2 Individual Differences in Personalities 24
    1.2.3 Individual Differences in Values and Attitudes 29
    1.2.4 Individual Differences in Abilities 39
    1.2.5 The Complex Employee as Unit of Analysis 41
  1.3 Further Reading 43

2 Economic-Psychological Behavior 45
  2.1 The Process Model of Work Behavior 46
    2.1.1 The Situation as a Determinant of Behavior 48
    2.1.2 The Individual Perception of a Situation 55
    2.1.3 The Process Model of Individual Work Behavior 60
    2.1.4 Cognitive and Motivational Processes in Work Behavior 64
    2.1.5 Individual Decision Behavior 71
  2.2 The Modeling of Work Behavior 76
    2.2.1 Work Effort 78
    2.2.2 Work Situation 79
    2.2.3 Consequences of Work Behavior 82
    2.2.4 Utility and Preferences of the Employee 83
    2.2.5 The Employee’s Goals and their Attributes 95
    2.2.6 Matrices, Trees and Diagrams 101
## II The Behavior in Organizations

### 3 Judgment of the Work Situation

3.1 The Foundations of Individual Judgment
- 3.1.1 The Limited Cognitive Complexity
- 3.1.2 The Judgment Process
- 3.1.3 Heuristics and Biases
- 3.1.4 The Role of Laboratory Experiments

3.2 Value Judgments
- 3.2.1 The Subjective Judgment of Consequences
- 3.2.2 The Subjective Judgment of Consequences in Case of Multiple Goals
- 3.2.3 The Subjective Judgment of Functional Relations
- 3.2.4 The Consistency of Preference Formation

3.3 Probability Judgments
- 3.3.1 Representativeness Heuristic
- 3.3.2 Availability Heuristic
- 3.3.3 Ambiguity and the Heuristic of Anchoring and Adjustment
- 3.3.4 Statistical Formation of Judgments

3.4 Causal Judgments
- 3.4.1 Causal Attribution as the Formation of Probability Judgments
- 3.4.2 Causal Schemata
- 3.4.3 Attributional Biases
- 3.4.4 Statistical Causal Attribution

3.5 Further Reading

### 4 The Psychology of Work Behavior

4.1 The Limited Individual Rationality
- 4.1.1 Utility Maximization
- 4.1.2 The Effects of Limited Cognitive Abilities on Utility Maximization
- 4.1.3 The Model of Man in the REMM

4.2 The Individual Decision Behavior
- 4.2.1 The Principles of Rational Behavior
- 4.2.2 Subjective Expected Utility Theories
- 4.2.3 Expected Utility Theories with Emotional Components

4.3 The Individual Work Behavior
- 4.3.1 Decision Rules for Multiple Goals
- 4.3.2 The Structural Model of Individual Work Behavior
- 4.3.3 The VIE Model of Work Motivation
- 4.3.4 The Model of Achievement Motivation

4.4 Further Reading
CONTENTS

III Organizations and the Role of Motivation 259

5 The Economic Analysis of the Motivation Problem 261
  5.1 Efficient Organizations and the Motivation Problem .......... 264
    5.1.1 The Value Creation of a Firm .......................... 264
    5.1.2 The Organization Problem ............................... 266
    5.1.3 The Interdependencies between Motivation and Coordination ............................................. 268
  5.2 The Motivation Problem in the Individual Work Relationship ...... 271
    5.2.1 The Work Relation as Contractual Relationship ........ 274
    5.2.2 Characteristics of the Work Relationship ................. 276
    5.2.3 The Incompleteness of the Work Contract .................. 280
    5.2.4 Opportunistic Behavior and Striving for Self Interest ...... 283
    5.2.5 Motivation Problems in Work Relationships ............. 287
  5.3 Motivating Economic Activities ................................ 296
    5.3.1 The Interdependencies between Intrinsic and Extrinsic Stimuli ............................................. 297
    5.3.2 The Consistency of the Incentive Structure .............. 302
    5.3.3 The Approach for an Economic Analysis of the Motivation Problem ............................................. 306
    5.3.4 Classification of Motivation Instruments ................. 310
  5.4 Two Case Studies .............................................. 315
    5.4.1 Henry Ford and the Five-Dollar Day Program ............. 315
    5.4.2 NUMMI and the Japanese-American Joint Venture ........ 318
  5.5 Further Reading .................................................. 320

6 Managing the Work Behavior 323

  6.1 The Work Relationship as a Nexus of Contracts ................. 324
    6.1.1 The Legal Work Contract as Relational Contract ......... 325
    6.1.2 The Managerial Authority and the Standardization of Contracts ............................................. 328
    6.1.3 The Implicit Work Contract as a Psychological Contract ........................................................... 329
    6.1.4 Self-enforcing Contracts and Value Creation in a Work Relationship ............................................. 334
    6.1.5 The Social Contract as a Collective Contract ............. 336
    6.1.6 Social Comparisons and Fairness in the Work Context ...... 339
  6.2 The Work Relationship as a Long-Term Contractual Relationship 343
    6.2.1 The Advantages and Disadvantages of a Long-Term Work Relationship ............................................. 344
    6.2.2 Trust as the Basis of Every Work Relationship ............. 348
    6.2.3 Mechanisms for Establishing Trust .......................... 351
  6.3 Requirements for Leadership ..................................... 359
    6.3.1 Assuring Rationality ......................................... 362
    6.3.2 Assuring Cooperation ......................................... 366
    6.3.3 Individualized Leadership .................................... 372
    6.3.4 Strategic Leadership .......................................... 374
CONTENTS

6.4 Further Reading ........................................... 377

Notes ......................................................... 379

Bibliography .................................................. 389

Index .......................................................... 435