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
CONTENTS

II The Behavior in Organizations 115

3 Judgment of the Work Situation 117

3.1 The Foundations of Individual Judgment 119

3.1.1 The Limited Cognitive Complexity 119

3.1.2 The Judgment Process 121

3.1.3 Heuristics and Biases 123

3.1.4 The Role of Laboratory Experiments 127

3.2 Value Judgments 129

3.2.1 The Subjective Judgment of Consequences 131

3.2.2 The Subjective Judgment of Consequences in Case of Multiple Goals 146

3.2.3 The Subjective Judgment of Functional Relations 153

3.2.4 The Consistency of Preference Formation 165

3.3 Probability Judgments 169

3.3.1 Representativeness Heuristic 170

3.3.2 Availability Heuristic 176

3.3.3 Ambiguity and the Heuristic of Anchoring and Adjustment 179

3.3.4 Statistical Formation of Judgments 185

3.4 Causal Judgments 187

3.4.1 Causal Attribution as the Formation of Probability Judgments 189

3.4.2 Causal Schemata 193

3.4.3 Attributional Biases 196

3.4.4 Statistical Causal Attribution 198

3.5 Further Reading 200

4 The Psychology of Work Behavior 203

4.1 The Limited Individual Rationality 205

4.1.1 Utility Maximization 207

4.1.2 The Effects of Limited Cognitive Abilities on Utility Maximization 210

4.1.3 The Model of Man in the REMM 217

4.2 The Individual Decision Behavior 217

4.2.1 The Principles of Rational Behavior 219

4.2.2 Subjective Expected Utility Theories 227

4.2.3 Expected Utility Theories with Emotional Components 234

4.3 The Individual Work Behavior 240

4.3.1 Decision Rules for Multiple Goals 243

4.3.2 The Structural Model of Individual Work Behavior 248

4.3.3 The VIE Model of Work Motivation 252

4.3.4 The Model of Achievement Motivation 254

4.4 Further Reading 257
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

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.4 Further Reading</td>
<td>377</td>
</tr>
<tr>
<td>Notes</td>
<td>379</td>
</tr>
<tr>
<td>Bibliography</td>
<td>389</td>
</tr>
<tr>
<td>Index</td>
<td>435</td>
</tr>
</tbody>
</table>