Table of Contents

Fore	eword	V
Pref	ace	VII
Part	One	
Mot	ivation as a Function of Management	1
I.	Motivation – A Dual-Edged Factor of Production Bruno S. Frey and Margit Osterloh	3
1.	What Motivates People to Perform?	7
2.	Extrinsic and Intrinsic Motivation	8
2.1	The Crowding-Out Effect	9
3.	The Importance of Intrinsic Motivation	19
3.1	Firm-Specific Pool Resources	19
3.2	Multi-Tasking	19
3.3	Fuzzy Tasking	20
3.4	The Transfer of Tacit Knowledge	20
3.5	Creativity and Innovation	21
4.	Why Extrinsic Motivation Is Nevertheless Indispensable	21
5.	The Art of Creating the "Right" Motivation	23
6.	Further Reading	23
II.	Motivation and Knowledge as Strategic Resources Margit Osterloh and Jetta Frost	27
1.	The Latest Developments in Strategy Research:	
	From a Market-Based to a Resource-Based View	31
2.	What Characterizes Corporate Resources That Are	
_	Relevant to Sustainable Competitive Advantage?	36
2.1	Why Do Firms Exist?	36
2.2	Why Are the Resources of Some Companies Superior to Those	
_	of Their Competitors?	41
3.	Knowledge and Motivation as Sources of Sustainable	
	Resources Crucial to Competitive Advantage	42

3.1	Explicit and Tacit Knowledge	44
3.2	Disseminating Tacit Knowledge	45
4.	Summary	49
5.	Further Reading	50
Part		53
Moti	vation and Compensation	53
III.	How Does Pay Influence Motivation?	55
	Bruno S. Frey	
1.	Contrasting Views	59
2.	When Do Wages Crowd Out Motivation and Reduce	
	Performance?	68
3.	Different Types of People	73
3.1	Extrinsically Motivated Employees	73
3.2	Intrinsically Motivated Employees	75
4.	Performance-Related Pay Increases Performance	76
5.	Performance-Related Pay Reduces Performance	79
6.	Motivation Beyond Wages	81
7.	Outlook	86
8.	Further Reading	87
IV.	Stock Options for Top Managers – The Possibilities and	
	Limitations of a Motivational Tool	89
	Matthias Benz, Marcel Kucher and Alois Stutzer	
1.	Extrinsic Incentives and Management Motivation	93
2.	The Structure and Level of Managers' Salaries	94
3.	The Relationship Between Management Compensation	
	and a Company's Success	97
4.	Managers' Interest in Stock Options	99
5.	How Many Stock Options Per Manager?	
-	The Influence of the Management Environment	100
5.1	The Role of the Board of Directors	100
5.2	The Influence of Shareholder Concentration	102
5.3	Competitive Pressure in the Main Product Market	104
6.	A Concrete Test: The S&P 500 Top Managers	106
6.1	Descriptive Analysis	106

6.2	Statistical Analysis	112
6.3	Interpretation of the Results	114
7.	Summary	116
8.	Further Reading	117
0.	Further Reading	117
V.	Pay for Performance: Motivation and Selection Effects	119
	Iris Bohnet and Felix Oberholzer-Gee	
1.	Introduction	123
2.	Performance-Related Pay – The Perfect Solution?	125
2.1	Drawbacks of Pay for Performance	125
2.2	Different Abilities	125
2.3	Incentives and Suggestion Systems	126
2.4	Consequences for the Company	129
3.	Testing the Selection Effect	129
3.1	The Data	131
3.2	Empirical Analysis	131
4.	More Effective Compensation Systems	134
5.	The Effectiveness of Performance Incentives	136
6.	Further Reading	137
7.	Statistical Appendix	138
Part l	III vation and Work Organization	141
VI.	Motivation and Organizational Forms	143
	Jetta Frost and Margit Osterloh	
1.	Organization and Extrinsic Motivation: Taylorism	147
2.	Organization and Intrinsic Motivation: Likert's Group Organization	150
3.	Can a Balance Be Achieved Between Extrinsic and Intrinsic	
٥.	Motivation Through the Profit Center Organization?	156
3.1	The Typical Profit Center Organization	156
3.2	The Conflict Between Motivation and Coordination Via Transfer	150
3,4	Prices	159
3.3	The Conflict Between Motivation and Knowledge Transfer	163
4.	Concluding Remarks	168
5.	Further Reading	170
J.	i di thei Acading	170

XIII

VII.	Fairness as a Motivator	171
	Antoinette Weibel and Sandra Rota	
1.	Distributive and Procedural Justice	175
1.1	Distributive Justice	176
1.2	Procedural Justice	177
2.	Fairness, Attitudes and Behavior	180
2.1	Fairness Alters Employee Attitudes	181
2.2	Fairness Alters Employee Behavior	182
3.	Concluding Remarks	187
4.	Further Reading	188
VIII.	Management of the Unwritten – How You Can Improve	
	Employment Relationships Through Participation and	
	Communication	191
	Matthias Benz	
1.	The Problem: Why Are Employment Contracts Incomplete?	195
1.1	The Reason Why Companies Exist	195
1.2	The Importance of Implicit Employment Contracts	196
2.	The Answer: Participation and Communication as Motivators	197
2.1	Participation	197
2.2	Communication	199
3.	A Concrete Application: Worker Representation and	
	Participation Survey	201
3.1	Can the Quality of Implicit Employment Contracts Be Measured?	202
3.2	Operationalizing Participation and Communication	203
3.3	Empirical Analysis	203
4.	Conclusion	209
5.	Further Reading	210
6.	Appendix	211
6.1	Survey Questionnaire and Variables	211
6.2	Detailed Presentation of the Results	213

Part 1	IV	
Case	Case Studies	
IX.	Managing Motivation in the Banking Industry:	
	The ING Barings Case Study	219
	Jetta Frost and Leo Boos	
1.	Investment Banking in the Early 1990s:	
	From Gold Digger to Grave Digger	223
1.1	Barings Brothers: Bankers and Brokers	224
1.2	What Banks Do	225
1.3	Information Technology is Changing Banks	225
2.	ING Barings	227
3.	ING Barings' Motivation Management Tools	230
3.1	First Motivational Tool: The Compensation Structure	232
3.2	Second Motivational Tool: The SMART Objectives	234
3.3	Third Motivational Tool: Professional Development and Training	236
3.4	Fourth Motivational Tool: The Internal Communication System	237
3.5	Fifth Motivational Tool: Discussion Groups and Internal	
	Suggestion Systems	238
3.6	Sixth Motivational Tool: The Synergy Award	240
3.7	Seventh Motivational Tool: The Spotlight Award	246
3.8	Eighth Motivational Tool: Community Investment Programs	246
4.	Motivation Management and the Battle for Talent	247
5.	Further Reading	250
	9	
х.	Managing Motivation in Software Development -	
	A Case Study at SAP AG	251
	Ralph Trittmann, Dirk Stelzer, Andreas Hierholzer and Werner Med	llis
1.	Motivation and Software Development	255
2.	The Nature of Employee Motivation at SAP	257
2.1	Method of Study	257
2.2	Motivation Factors	259
2.3	Categorization of Motivation Factors	260
3.	Improvements in Software Development at SAP AG	261
3.1	Method of Study	261
3.2	General Characteristics of the Improvement Projects Studied	263
3.3	Factors Contributing to the Success of Improvement Projects	265

4.	Relationship Between Motivation Factors and Factors Contributing to the Success of Improvement Projects	268
5.	Conclusion	271
6.	Further Reading	272
Part	V	255
Con	clusion	275
XI.	Managing Motivation to Achieve a Sustainable	
	Competitive Advantage	277
	Margit Osterloh and Bruno S. Frey	
1.	The Problems of Performance-Based Compensation	279
1.1	Measurement Problem	279
1.2	Team Problem	280
1.3	Selection Problem	280
1.4	Manipulation Problem	281
1.5	Crowding Out Problem	281
2.	Basic Principles of Management by Motivation	282
2.1	Tailoring the Incentive System to the Type of Activity	282
2.2	Variety of Motivational Instruments	282
2.3	Workflow	283
2.4	Fairness	283
3.	Managing Motivation to Achieve a Sustainable	
	Competitive Advantage	284
Aut	hors	285
Ref	erences	289
Ind	ex	297