Online Appendix to

“Think Twice before Going for Incentives: Social Norms and the Principal’s Decision on Compensation Contracts”

This online appendix reports the results of the additional experiment discussed in Section 4.4 of the manuscript. In this additional experiment, principals cannot decide on the type of contracts for their agents. The contracts are randomly determined.

FIGURE A1

Empirical test of the theoretical model for the additional experiment in which principals cannot decide on contracts

Figure A1: This figure shows the results of the path analysis ($N = 32$). All paths displayed in this figure are estimated, and they are estimated jointly using quasi-maximum likelihood (QML) method. The standardized path coefficient and corresponding two-tailed $p$-value are shown next to each path. The paths with coefficients significant at the 0.10 level or less are depicted in solid lines, and other paths are in dotted lines. We calculate goodness-of-fit of this model using the standardized root mean square of the residual (SRMR). The SRMR of the model is 0.04; values lower than 0.10 are considered to be favorable (Bentler [1995], Weston and Gore [2006]).

CONTRACT is the contract received by the subordinates in the Main Stage of this additional experiment. This variable equals 1 if the contract is the incentive contract and 0 if the contract is the fixed-salary contract.

PERCEIVEDNORM represents the extent to which subordinates agree that others reported high costs in the experiment, on a 7-point scale (1 = “Fully disagree”, 4 = “Neither agree nor disagree”, 7 = “Fully agree”).

PERCEIVEDTRUST captures the subordinates’ perception of being trusted by their superiors in the Main Stage. The subordinates are asked to rate whether they agree that their superiors in the Main Stage trusted them on a 7-point scale (1 = “Fully disagree”, 4 = “Neither agree nor disagree”, 7 = “Fully agree”).

MISREPORT is the level of misreporting in the Main Stage, calculated as the ratio of the difference between the average reported cost and the average actual cost to the difference between 20 and the average actual cost (Evans et al. [2001]).