



# **Variety of Performance Pay and Firm Performance: Effect of Financial Incentives on Worker Absence and Productivity**

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Using two cross-sections of a representative dataset of British establishments, the effect of various forms of performance-related pay (objective/subjective, individual/group/collective) on the absence rates and productivity of firms is investigated. Incentives that are tied to the subjective evaluation of individual merit are found to be significantly related to lower absenteeism, but have no effect on labour productivity. In contrast, PRP that is objectively conditioned on outputs has a beneficial effect on workers' productivity, albeit with no effect on absence rates. The findings therefore suggest that firms are likely to use objective and subjective PRP schemes in tandem in order to counteract any possible dysfunctional responses on behalf of their workforce (e.g. intertemporal allocation of effort). It is also found that public sector firms and those which have interdependent production should be wary of using PRP as an absence control tool.

Keywords: Performance-Related Pay, Incentives, Absenteeism, Productivity

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