INCENTIVE DESIGN FOR CORPORATE EMPLOYEE-ENTREPRENEURS: NEW THEORY AND EMPIRICAL EVIDENCE (INTERACTIVE PAPER)

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NEW THEORY AND EMPIRICAL EVIDENCE

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Principal Topic

Few researchers address the theoretical foundations of incentive system design for corporate entrepreneurship. In fact, we found only one prior published study that models the corporate venturing process, including the reward system, *from a theoretical perspective*. Applying agency theory, Jones and Butler (1992) found that innovations in organizational structure and organizational controls and rewards can mitigate and solve agency problems. However, they admit their model is limited and recommend that behavioral and social factors should be included.

Answering their call, we propose an expanded incentive system model that is rooted in both economic (agency and prospect, a.k.a. behavioral agency model) and behavioral (goal and expectancy) theories. We hypothesize that risk (pay risk and employment risk) and effort (extra effort and expected success) will moderate the basic relationship between incentives (profit sharing) and the decision to participate in a new corporate venture.

Method

To test our hypotheses, we designed a field experiment. The sample frame of our study is scientific, technical, and engineering employees of companies active in the high technology sector in the states of Thuringia and Saxony in former Eastern Germany, where there has been substantial corporate venturing activity, as a result of organizational downsizing and restructuring after reintegration with former West Germany. In our conjoint-based experiment, individual participants are confronted with 16 unique profiles (twice to ensure reliability) which describe corporate venture opportunities based on low or high values of the five independent model-elements. Individuals assess how likely they would be to participate in the new venture if asked to do so. Additional demographic (age, education, and experience) and attitudinal (self-efficacy) data is also collected and controlled for.

Results and Implications

Preliminary data analysis of 20 initial respondents from 3 firms shows that all main effects are significant and in the directions, as proposed by our model. Moreover, we find significant interactions between profit sharing and pay risk as well as profit sharing and probability of success. Our model and empirical findings extend compensation theory and have implications that extend beyond this context to broader compensation practices in strategy and human relations, which we discuss at the conclusion of the paper.

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