Incentive Pay, Teams and Earnings: Evidence from Toronto Firms

Chris Riddell
School of Policy Studies, Queen's University
Kingston, Ontario, Canada

Executive Summary

The use of 'high-performance' workplace practices and incentive pay plans have received considerable attention from researchers. However, little is known about human resource practices in non-manufacturing and non-case study settings. Moreover, for incentive pay, few studies have actually observed compensation contracts. This paper examines the relationship between several workplace practices and earnings using unique employee-employer linked personnel data where the explicit nature of compensation contracts is observed. The data covers 415 establishments from the Greater Toronto Area and is quite representative along several dimensions including industry, total revenues, and employee size. A key advantage of the data is that information on human resource management (HRM) practices is available at seven different levels of the firm hierarchy including: top executives, lower executives, middle management / supervisory professionals, information technology managers, non-management / non-supervisory professionals, IT staff, and clerical / support staff. The focus of the paper is on the interaction between teams and team / group-based incentive pay plans. In particular, I test whether teams are more effective — via employees earning higher salaries — when backed up with incentive pay that uses group or team based performance measures. The key findings are as follows: 1) when within-firm variation in HRM practices is used for identification, employees who work in teams earn a substantial premium, which increases further when a group / team-based incentive pay plan is applied; and 2) most cross-sectional earnings premiums associated with high-performance workplace practices (including annual bonus plans) disappear when within-firm variation is used for identification.