

Bonus or Penalty to Place the Right People in the Right Position

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Abstract

Since measuring employees' qualifications can involve some errors, employees' claims are welcomed as a chance to improve the business. If employees could potentially increase their wages through their claims, they may try to correct their own evaluations, but if their wages could be reduced, they would not complain about their evaluations. We consider which wage schemes are optimal as *ex ante* incentives for making efforts and *ex post* incentives for telling the truth, and show that the wage scheme with a big bonus is desirable when the misallocation cost is serious, otherwise, a moderate bonus wage scheme can be better. This means that big bonus schemes are offered in the cases of growing firms, booms, or specialized skill formation.

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