

**The impact of piece rate contracts on wages and worker effort: Evidence
from linked employer-employee data**

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This paper examines the effect of piece rate contracts on wages and hours worked using linked employer-employee panel data from Finland. Unlike previous studies, by having variation in pay schemes across both individuals and firms, we can disentangle the effect of pay-for-performance contracts on individual productivity from firm effects. Moreover, we observe the exact share of total hours that an individual works on a piece rate contract. The data indicates that about half of piece rate employees work 50% or more of their total hours on a performance contract. Standard fixed effects estimates yield substantial wage premiums for piece rate workers. This premium does not change once firm effects are allowed for. However, we find much larger premiums for workers who experienced a change in their pay scheme due to changing firms relative to cases where the firm changed its compensation policy. The largest premiums come from models where the individual changed firms because of a merger, which are likely to be cases where the individual changed pay schemes for exogenous reasons. Finally, we find that while piece rate workers work on average less hours than fixed rate workers, changing to piece rate contracts has a considerable positive effect on the hours worked. In the future work, we hope to merge information on the firms' profits to these data and estimate the effect of piece rate contracts on the value added per worker and overall profits of the firm.

Theme: Personnel economics

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