

OPTIMAL CONTRACTING WITH ENDOGENOUS PROJECT MISSION

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Abstract

Empirical evidence suggests that workers care about the mission of their job, in addition to their wage. This paper studies how organizations can choose a mission to attract, incentivize and screen their workers. We analyze a model in which a principal offers a contract to an agent for the development of a project and can influence the agent's marginal return of effort through the choice of project mission. The principal's and the agents' mission preferences are misaligned and the agents vary in the intensity of their mission drive. Our main results highlight that how far the organization chooses to move from its preferred mission depends on the contractual environment in which it operates. Missions will be more agent-preferred in environments in which effort is non-contractible. In environments in which agents' drive is unknown, missions will be less agent-preferred and the organization will find it optimal to offer contract menus that may be implemented via scoring auctions when there are competing agents. Our analysis applies to the design and allocation of aid contracts, research funding, and creative jobs. (JEL: H41, D23, D82, M52)

Keywords: mission, contracting, motivation, incentives.

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