Optimal Training, Employee Preferences and Moral Hazard

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Abstract

We study an agency model with moral hazard, when the employer offers complementary training/development programs that will increase the productivity of the employee’s effort. Since it is costly for an employer to offer training and development opportunities and given that employees are not identical, how will an employer choose the quantity and allocation of such programs? Does the quantity and type of training offered, vary with the employee’s aversion to effort? Does more “sincerity” necessarily translate into more employee development? Does more training in fact induce the employee to work harder? In theory the answer could go either way. On the one hand, an employer may wish to leverage the use of such programs to motivate a lazy employee to work harder. Conversely, especially because effort is unobservable, one can argue that she may be better off rewarding a sincere employee with more development opportunities. This work reaches a definite and perhaps unpredictable conclusion. We find that there is an inverse relationship between the optimal quantity of the training program and increased aversion to effort for both a relatively lazy and a relatively sincere employee. This is also true regardless of whether the program is relatively cheap or relatively expensive for the employer to offer. Perhaps surprisingly, even if the employer can monitor or observe effort, there is no qualitative change in the comparative statics results.

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