

**COGNITIVE PROCESSES AND BIASES
IN HR RELATED DECISION MAKING:
A CASE OF COLLECTIVE BARGAINING AND
PERFORMANCE MANAGEMENT SYSTEM**

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PERFORMANCE MANAGEMENT SYSTEM**

by

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CERTIFICATE

The thesis entitled “**Cognitive processes and biases in HR related decision making: A case of Collective bargaining and Performance management system**”, being submitted by **John Mathai** (2010SMZ8207) to the Indian Institute of Technology Delhi for the award of the **degree of Doctor of Philosophy** is a record of bona fide research work done by him, under our guidance and supervision. He has fulfilled the standard requirements for a Ph.D. degree of the Institute. The research findings presented in this thesis have not been submitted anywhere else for the award of any other degree or diploma.

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ABSTRACT

When our perceptions and judgments are influenced by a variety of cognitive processes that are not dominated by the actual data, subjectivity can arise and decision making can become distorted. From HRM perspective, an understanding of cognitive processes is important for credibly demonstrating its value proposition in the transactions that take place in an organization. One good news is that the recent advances in behavioral economics have empirically proved the significance of individual cognitive bias and its implications for Judgment and Decision Making (JDM). Considering the past linkages of HR with economics, the basic strength of rationality of its models, and the advances in economic thoughts, this thesis wanted to bring up a more rigorous intellectual structure for HRM through behavioral economic outcome perspective of the cognitive processes and biases in HR related decision making.

From a wide spectrum of HRM contexts, we examined two areas displaying economic character, viz. Collective Bargaining (CB) and Performance Management System (PMS). In both contexts, monetary transactions are involved, trade-offs are salient and hence economic experimentation is possible.

Using the ultimatum game from the discipline in behavioral economics, the experimental study in CB was conducted with the objective of testing regression to mean hypothesis in a collective bargaining situation, where an industrial dispute arising from profit-sharing, between the management and labour was to be resolved. The dependent variable was distribution of the sum at the end of each negotiation process (measured through the split difference) and the number of transactions taken for each negotiation. Cognitive overload (manipulated at 4 levels), endowment effect (manipulated at 2 levels), agent strength (manipulated at 3 levels), role-reversal (manipulated at 2 levels), gender (manipulated at 2 levels) and regulatory orientation of

personality (manipulated at 2 levels) were the independent variables. 168 participants participated in the study. Participants were randomly assigned to either the management or the union roles. Results revealed that, the division of sum regressed toward the mean more under cognitively constrained condition. Results from agent strength found that the agents with minority strength made offers with significantly large standard deviation invoking stalemate condition in the process. Results on gender informed the larger influence of women in bringing up equitable distribution of money in collective bargaining.

Drawing strength from the rich theoretical base of Transaction cost economics (TCE) and the definition of opportunistic behavior, ‘self interest seeking with guile’ (Williamson, 1979), we explored and extended the situations to a bell curved PMS. In PMS experiment, the dependent variable was the opportunistic behavior measured through a self-developed questionnaire. The major independent variable was PMS information load (manipulated at 2 levels), through presentation of two scenarios viz. when an individual knows about her/his performance rating and not of others; and when performance ratings of all subjects are revealed for comparison. Gender (manipulated at 2 levels), age (measured at 4 levels), work experience (measured at 3 levels) and regulatory orientation of personality (manipulated at 2 levels) were the other independent variables. 135 participants participated in the study. In the experiment, it was found that the trade-offs were different at both information levels, though the stimulus (performance score) was the same. It was further found that the reason for such a context-dependent shift in opportunistic behavior was due to employees marking the achievements of their colleagues in the organization, as reference points with which to compare their relative position in the appraisal. This supported the Prospect theory assumption that the value function was found to kink at the reference point generating a quantum of change in display of opportunistic behaviors. Our study

has further reiterated the earlier findings that a people would maximize expected payoffs when they are below the reference point; and same people would be less opportunistic when the expected payoffs are at/above the reference point.

Results of both studies were discussed for their theoretical and practical significance. Our findings indicated that errors in judgment is prevalent and it calls for crafting default setting of HRM contexts, which can absorb the impact of cognitive effects and can guide behavior of subjects to desirable outcomes when cognitive abilities limit capacities. For example, in CB, it was suggested that negotiation teams may consist of agent pairs of equal size for a balanced approach and may consist of mixed gender, to ensure success in an important and long drawn traditional HR activity like collective bargaining. In PMS, it was suggested that the propensity for an employee to make opportunistic choices can also be reduced if the organization could design a full grown metric system of evaluation and appropriate PRP plans; Organizations can repair the mistakes emanating from competition and social comparison, by erecting regret-free preferences designed around PMS; and that organizations can create ethical boundaries by instilling and embodying ethical values in performance-reward system.

This study has made a significant contribution to the literature by identifying and accounting for the predictable irrationalities in collective bargaining and performance management system through the emerging field of behavioral economics. These results may benefit HR practitioners who can work on cognitive effects, and other relevant demographic and personality factors of individuals and teams for producing desired outcomes in HR related decision making.

सार

जब हमारी धारणाएं और निर्णय विभिन्न संज्ञानात्मक प्रक्रियाओं से प्रभावित होते हैं जो वास्तविक डेटा का प्रभुत्व नहीं रखते हैं, तो व्यक्तिपरकता उत्पन्न हो सकती है और निर्णय लेने विकृत हो सकता है। एचआरएम परिप्रेक्ष्य से, संज्ञानात्मक प्रक्रियाओं की समझ एक संगठन में होने वाले लेनदेन में अपने मूल्य प्रस्ताव को विश्वसनीय रूप से प्रदर्शित करने के लिए महत्वपूर्ण है। एक अच्छी खबर यह है कि व्यवहारिक अर्थशास्त्र में हालिया प्रगति ने व्यक्तिगत संज्ञानात्मक पूर्वाग्रह और न्याय और निर्णय लेने (जेडीएम) के लिए इसके प्रभावों का अनुभव किया है। अर्थशास्त्र के साथ मानव संसाधन के पिछले संबंधों को ध्यान में रखते हुए, अपने मॉडल की तर्कसंगतता की बुनियादी ताकत और आर्थिक विचारों में प्रगति, यह थीसिस संज्ञानात्मक प्रक्रियाओं और पूर्वाग्रहों के आर्थिक परिणाम परिप्रेक्ष्य के माध्यम से एचआरएम के लिए एक और अधिक कठोर बौद्धिक संरचना लाने के लिए चाहता था एचआर संबंधित निर्णय लेने।

एचआरएम संदर्भों के विस्तृत स्पेक्ट्रम से, हमने आर्थिक चरित्र प्रदर्शित करने वाले दो क्षेत्रों की जांच की, जैसे। सामूहिक सौदा। दोनों संदर्भों में (पीएमएस) और प्रदर्शन प्रबंधन प्रणाली (सीबी), मौद्रिक लेनदेन शामिल हैं, व्यापारप्रयोग संभव है। बंद मुख्य हैं और इसलिए आर्थिक-

व्यवहारिक अर्थशास्त्र में अनुशासन से अल्टीमेटम गेम का उपयोग करके, सीबी में प्रयोगात्मक अध्ययन एक सामूहिक सौदेबाजी की स्थिति में परिकल्पना के लिए परीक्षण प्रतिगमन के उद्देश्य से आयोजित किया गया था, जहां प्रबंधन और श्रम के बीच लाभ-साझाकरण से उत्पन्न एक औद्योगिक विवाद था हल हो गया। आश्रित चर प्रत्येक वार्ता प्रक्रिया (विभाजित अंतर के माध्यम से मापा जाता है) के अंत में राशि का वितरण था और प्रत्येक वार्ता के लिए किए गए लेनदेन की संख्या। संज्ञानात्मक अधिभार (4 स्तरों पर छेड़छाड़), एंडॉवमेंट प्रभाव (2 स्तरों पर छेड़छाड़), एजेंट की ताकत (3 स्तरों पर छेड़छाड़), रोल-रिवर्सल (2 स्तरों पर छेड़छाड़), लिंग (2 स्तरों पर छेड़छाड़) और व्यक्तित्व के विनियामक अभिविन्यास (2 स्तरों पर

छेड़छाड़) स्वतंत्र चर थे। 168 प्रतिभागियों ने अध्ययन में भाग लिया। प्रतिभागियों को या तो प्रबंधन या संघ की भूमिकाओं को यादृच्छिक रूप से असाइन किया गया था। नतीजों से पता चला कि, योग का विभाजन संज्ञानात्मक रूप से बाधित स्थिति के तहत अधिक मायने रखता है। एजेंट की ताकत के नतीजे बताते हैं कि अल्पसंख्यक ताकत वाले एजेंटों ने प्रक्रिया में काफी बड़े मानक विचलन का आह्वान किया है। लिंग पर परिणामों ने सामूहिक सौदेबाजी में पैसे के न्यायसंगत वितरण को लाने में महिलाओं के बड़े प्रभाव को सूचित किया।

लेनदेन लागत अर्थशास्त्र (टीसीई) के समृद्ध सैद्धांतिक आधार और अवसरवादी व्यवहार की परिभाषा, 'आत्मनिर्भरता के साथ स्वयं की रुचि' (विलियम्सन, 1979) की परिभाषा, हमने परिस्थितियों को एक घंटी घुमावदार पीएमएस में खोज और विस्तारित किया। पीएमएस प्रयोग में, आश्रित चर एक स्व-विकसित प्रश्नावली के माध्यम से मापा अवसरवादी व्यवहार था। प्रमुख स्वतंत्र चर दो पी परिदृश्यों की प्रस्तुति के माध्यम से पीएमएस सूचना भार (2 स्तरों पर छेड़छाड़) था। जब कोई व्यक्ति उसे / उसकी प्रदर्शन रेटिंग के बारे में जानता है, न कि दूसरों के बारे में; और जब तुलना के लिए सभी विषयों की प्रदर्शन रेटिंग प्रकट होती है। लिंग (2 स्तरों पर छेड़छाड़), आयु (4 स्तरों पर मापा जाता है), कार्य अनुभव (3 स्तरों पर मापा जाता है) और व्यक्तित्व के नियामक अभिविन्यास (2 स्तरों पर छेड़छाड़) अन्य स्वतंत्र चर थे। 135 प्रतिभागियों ने अध्ययन में भाग लिया। प्रयोग में, यह पाया गया कि दोनों सूचना परिदृश्यों में व्यापार-बंद अलग थे, हालांकि उत्तेजना (प्रदर्शन स्कोर) समान था। यह और पाया गया कि अवसरवादी व्यवहार में इस तरह के एक संदर्भ-निर्भर बदलाव के कारण संगठन में उनके सहयोगियों की उपलब्धियों को चिह्नित करने वाले कर्मचारियों के कारण था, संदर्भ संदर्भ के साथ, जिसमें मूल्यांकन में उनकी सापेक्ष स्थिति की तुलना करना है। इसने प्रॉस्पेक्ट्स सिद्धांत धारणा का समर्थन किया कि मूल्य कार्य को संदर्भ बिंदु पर किंक में पाया गया था जो अवसरवादी व्यवहार के प्रदर्शन में परिवर्तन की मात्रा उत्पन्न करता था। हमारे अध्ययन ने पहले के निष्कर्षों को और दोहराया है कि जब

लोग संदर्भ बिंदु से नीचे होते हैं तो लोग अपेक्षित भुगतान को अधिकतम करेंगे; और वही लोग कम अवसरवादी होंगे जब अपेक्षित भुगतान संदर्भ बिंदु से ऊपर / ऊपर होते हैं।

दोनों अध्ययनों के परिणामों पर उनके सैद्धांतिक और व्यावहारिक महत्व के लिए चर्चा की गई। हमारे निष्कर्षों से संकेत मिलता है कि निर्णय में त्रुटियां प्रचलित हैं और यह एचआरएम संदर्भों की डिफ़ॉल्ट सेटिंग बनाने के लिए कहती है, जो संज्ञानात्मक प्रभावों के प्रभाव को संबोधित कर सकती हैं और संज्ञानात्मक क्षमताओं की क्षमता को सीमित करते समय विषयों के व्यवहार को वांछित परिणामों के लिए मार्गदर्शन कर सकती हैं। उदाहरण के लिए, सीबी में, यह सुझाव दिया गया था कि वार्तालाप टीमों में संतुलित दृष्टिकोण के लिए समान आकार के एजेंट जोड़े शामिल हो सकते हैं और सामूहिक सौदेबाजी जैसी एक महत्वपूर्ण और लंबी तैयार पारंपरिक मानव संसाधन गतिविधि में सफलता सुनिश्चित करने के लिए मिश्रित लिंग शामिल हो सकता है। पीएमएस में, यह सुझाव दिया गया था कि संगठन अवसरवादी विकल्प बनाने के लिए प्रवृत्ति को भी कम किया जा सकता है यदि संगठन मूल्यांकन और उचित पीआरपी योजनाओं की पूर्ण विकसित मीट्रिक प्रणाली तैयार कर सकता है; संगठन पीएमएस के आसपास डिजाइन किए गए अफसोस मुक्त वरीयताओं को स्थापित करके प्रतिस्पर्धा और सामाजिक तुलना से उत्पन्न गलतियों की मरम्मत कर सकते हैं; और वह संगठन प्रदर्शन-इनाम प्रणाली में नैतिक मूल्यों को स्थापित और जोड़कर नैतिक सीमाएं बना सकते हैं।

इस अध्ययन ने व्यावहारिक अर्थशास्त्र के उभरते क्षेत्र के माध्यम से सामूहिक सौदेबाजी और प्रदर्शन प्रबंधन प्रणाली में अनुमानित तर्कहीनताओं की पहचान और लेखांकन करके साहित्य में महत्वपूर्ण योगदान दिया है। इन परिणामों से एचआर व्यवसायियों को लाभ हो सकता है जो एचआर से संबंधित निर्णय लेने में वांछित परिणामों के उत्पादन के लिए व्यक्तियों और टीमों के संज्ञानात्मक प्रभाव, और अन्य प्रासंगिक जनसांख्यिकीय और व्यक्तित्व कारकों पर काम कर सकते हैं।

TABLE OF CONTENTS

CERTIFICATE.....	i
ACKNOWLEDGEMENTS.....	ii
ABSTRACT (संक्षेप).....	iii
TABLE OF CONTENTS.....	ix
LIST OF EXHIBITS.....	xvi
LIST OF TABLES.....	xvii
LIST OF ABBREVIATIONS.....	xxi
CHAPTER 1: INTRODUCTION.....	1
1.1 Business Expectations from HR and Present Status.....	1
1.2 Historical Examination of HRM Progress.....	2
1.3 Rationality Framework for HRM.....	5
1.4 Opportunity for HRM in view of Advances in Behavioral Economics.....	7
1.5 Proposed Areas for Experimental Examination.....	9
1.6 Rationale for conducting research in India.....	10
1.6.1 Rationale for choosing Collective bargaining experiments in India.....	12
1.6.2 Rationale for choosing experiments in the area of PMS in India	15
1.6.2.1 Performance appraisal process in Indian companies.....	16
1.6.2.2 Performance appraisal system in PSUs of India.....	19
1.7 Proposed Institutional Frameworks.....	21
1.8 Guiding Research Questions.....	21

1.9 Scope of Study.....	22
1.10 Chapter Plan of the Thesis.....	22
CHAPTER 2: LITERATURE REVIEW, OBJECTIVES AND HYPOTHESES.....	24
2.1 Literature Review on Collective Bargaining.....	24
2.1.1 Historical background of Collective bargaining.....	24
2.1.2 Premises of Ultimatum game.....	27
2.1.3 Collective bargaining as an Ultimatum game.....	29
2.1.4 Collective bargaining as a trade-off in the backdrop of normative economics.....	30
2.1.5 Collective bargaining and Cognitive processes.....	31
2.1.5.1 Inequality aversion.....	32
2.1.5.2. Regression towards the mean.....	36
2.1.6 Hypotheses linked to Collective bargaining	37
2.1.6.1 Impact of Cognitive load on Collective bargaining outcomes.....	37
2.1.6.2 Effect of provisional endowment on CB outcomes.....	40
2.1.6.3 Effect of agent strength in CB outcomes.....	42
2.1.6.4 Effect of role-reversal in CB outcomes.....	44
2.1.6.5 Effect of length of work experience of agents in CB outcomes.....	46
2.1.6.6 Effect of gender in CB outcomes.....	47
2.1.6.7 Impact of regulatory orientation of agent's personality in CB outcomes.....	48
2.1.6.8 Overall behavioral outcome in Collective bargaining: Regression to the mean.....	49
2.2 Literature Survey on Performance Management System.....	50
2.2.1 Background.....	50

2.2.2 PMS: The Bell curve method in performance appraisal.....	51
2.2.3 Performance-reward construct as a psychological contract.....	54
2.2.4 Anomalies in PMS.....	56
2.2.5 Theoretical Base of Transaction Cost Economics for PMS.....	58
2.2.6 Theoretical background of Opportunistic behavior.....	60
2.2.7 Hypotheses linked to PMS.....	61
2.2.7.1 Opportunistic behavior when performance rating of self is the reference point..	61
2.2.7.2 Opportunistic behavior with shifting of reference point and perceived loss.....	63
2.2.7.3 Impact of gender on opportunistic behavior in PMS.....	66
2.2.7.4 Impact of age on opportunistic behavior in PMS.....	67
2.2.7.5 Impact of work-experience on opportunistic behavior in PMS.....	67
2.2.7.6 Impact of regulatory frame of personality on opportunistic behavior in PMS...	67
2.3 The Summary of Hypotheses.....	68
2.4 Methodology.....	75
2.4.1 Rationale for adopting experimental methodology.....	75
 CHAPTER 3: TESTING REGRESSION TO MEAN IN COLLECTIVE BARGAINING	
SITUATION (EXPERIMENTAL STUDY 1).....	78
3.1 Methodology.....	78
3.1.1 Overview of Experiments.....	79
3.1.2 The Task and Structure of Experiment.....	81
3.1.3 Participants.....	81
3.2 Dependant / Independent Variables.....	81

3.2.1 Dependent variables.....	81
3.2.1.1 Split difference of the sum.....	81
3.2.1.2 Number of Transactions.....	82
3.2.2 Independent Variables.....	82
3.2.2.1 Cognitive load.....	83
3.2.2.2 Endowment effect.....	83
3.2.2.3 Effect of agent strength	85
3.2.2.4 Role-reversal effect.....	85
3.2.2.5 Effect of work experience.....	85
3.2.2.6 Effect of gender.....	86
3.2.2.7 Effect of regulatory orientation.....	86
3.3 Instrumentation.....	86
3.3.1 Instrument for memory load.....	86
3.3.2 Instrument for time load.....	86
3.3.3 Instrument for time & memory load.....	87
3.3.4 Instrument for regulatory focus.....	87
3.3.5 Instrument for gender and work-experience.....	87
3.4 Ethical explanation of CB experiment.....	87
3.5 Testing of hypothesis	88
3.5.1 Effect of cognitive constraints on CB outcomes (using absolute split difference).....	88
3.5.2 Effect of cognitive constraints on CB outcomes (number of transactions for reaching an agreement).....	93
3.5.3 Impact of endowment effect in CB.....	98

3.5.4 Impact of agent strength.....	99
3.5.4.1 Trade-off by agents of minority strength.....	103
3.5.5 Effect of role-reversal in CB outcomes.....	104
3.5.6 Impact of work-experience of agents with CB outcome.....	106
3.5.7 Relationship of gender with CB	107
3.5.8 Relationship of Regulatory orientation of agents with CB Outcomes.....	109
3.5.9 Overall behavioral outcome of CB.....	111
3.6 Concluding Remarks.....	112
3.6.1 Summary of status of hypothesis after the experiments.....	112
3.6.2 Discussion.....	115
CHAPTER 4: REFERENCE-DEPENDENT OPPORTUNISTIC BEHAVIOR IN	
PERFORMANCE MANAGEMENT SYSTEM (EXPERIMENTAL STUDY 2).....	119
4.1 Methodology.....	119
4.1.1 The Task and Structure of Experiment.....	120
4.1.1.1 Setting up of lab.....	120
4.1.1.2 Experiment at information level-1	121
4.1.1.3 Experiment at information level-2.....	122
4.1.2 Participants.....	123
4.2 Dependent and Independent variables.....	123
4.2.1 Dependent variable: Opportunistic Behavior.....	123
4.2.2 Independent variables.....	124
4.2.2.1 IV: Information scenarios.....	124
4.2.2.2 IV: Demographics: Gender, Age, Experience, Regulatory orientation.....	124

4.3 Instrumentation.....	124
4.3.1 Scale development for opportunistic behavior in PMS (O-B-Q).....	124
4.3.2 Scale that measured regulatory orientation of personality.....	129
4.3.3 Instrument for gender, age and work experience.....	129
4.4 Ethical explanation of PMS experiment.....	130
4.5 Testing of Hypotheses.....	130
4.5.1 Impact of information level-1 on Opportunistic behavior in PMS.....	130
4.5.2 Impact of information level-2 on Opportunistic behavior in PMS.....	133
4.5.3 Impact of gender on Opportunistic Behavior in PMS.....	138
4.5.4 Impact of age and work-experience on Opportunistic Behavior in PMS.....	141
4.5.5 Impact of regulatory orientation on Opportunistic Behavior in PMS.....	143
4.6 Concluding remarks.....	146
4.6.1 Summary of status of hypothesis after experiment.....	146
4.5.2 Discussion.....	147
CHAPTER 5: CONCLUSION.....	155
5.1 Summary of Results on Experiments in Collective Bargaining.....	155
5.1.1 Implications and Suggestions in Collective Bargaining	157
5.1.1.1 Infusion of cognitive load in Collective bargaining for desirable outcomes.....	158
5.1.1.2 Composition of negotiation	159
5.1.1.3 Employee behavioral modification through education and training.....	159
5.1.1.4 Holding Collective bargaining in Ultimatum game format for equitable outcomes.....	160
5.2 Summary of Results of Experiments on PMS.....	160
5.2.1 Implications and Suggestions in PMS.....	162

5.2.1.1 Information regulation.....	163
5.2.1.2 Set Performance behavior norms	164
5.2.1.3 Handling high performers.....	165
5.2.1.4 Choice bracketing	166
5.3 Significant Contributions of Present Research.....	166
5.4 Limitations of the Study.....	168
5.5 Scope for Further Research.....	170
REFERENCES.....	172
ANNEXURES.....	207
BRIEF CURRICULUM VITAE.....	225

LIST OF EXHIBITS

Exhibit 1.1	Integration snapshot of PMS in an Indian bank.....	17
Exhibit 1.2	Rating scales definition in one Indian Fortune 500 corporation.....	17
Exhibit 1.3	PMS Integration matrix in an Indian automobile company.....	18
Exhibit 2.1	Dilemma of profit-sharing: an illustration.....	34
Exhibit 2.2	A Graphical Representation of Hypotheses.....	70
Exhibit 3.1	Impact of cognitive loads on CB outcome.....	92
Exhibit 3.2	Impact of cognitive loads on number of transaction.....	96
Exhibit 3.3	Impact of agent strength on split difference.....	102
Exhibit 3.4	Scatter plot of the ‘length of experience’ with ‘split difference’.....	107
Exhibit 3.5	Scatter plot of ‘RFQ scores and ‘SD of all offers’.....	111
Exhibit 4.1	Scree plot of Component Analysis of items of Opportunistic behaviour....	126
Exhibit 4.2	O-B-Q scores at information level 1.....	132
Exhibit 4.3	Relationship between gender and opportunistic behaviour at info level 1...139	
Exhibit 4.4	Relationship between gender and opportunistic behaviour at info level 2...139	
Exhibit 4.5	Relationship between RFQ and OBQ at info level-1.....	144
Exhibit 4.6	Relationship between RFQ and OBQ at info level-2.....	144
Exhibit 4.7	OBQ-Scores at Info level-1and at Iinfo level-2.....	149

LIST OF TABLES

Table 2.1	Typical performance bands and performance pay (PRP) in a bell curve system in large public sector company.....	52
Table 2.2	Summary of Objectives and Proposed Hypotheses.....	70
Table 3.1	Mean and SD of the absolute split difference on control and experimental conditions with varying cognitive loads.....	90
Table 3.2	One way independent ANOVA on the impact of cognitive load on CB outcome.....	90
Table 3.3	Contrast test of one way independent ANOVA for the impact of cognitive loads.....	91
Table 3.4	Post hoc tests of one way independent ANOVA for the impact of cognitive loads on CB outcome, viz. Absolute split difference (Games-Howell).....	92
Table 3.5	Mean and SD of the ‘number of transactions’ on control and experimental conditions with varying cognitive loads.....	94
Table 3.6	One way independent ANOVA for the impact of cognitive loads on ‘number of transactions’	95
Table 3.7	Contrast test for the impact of cognitive load on ‘number of transactions’	96
Table 3.8	Post hoc test of one way independent ANOVA for the impact of on ‘number of transactions’ on CB outcome.....	97
Table3.9	Independent samples test for comparison of means of ‘Split difference of the sum’ in CB between endowed condition and non-endowed condition.....	99
Table3.10	Mean and SD of the Split difference under varying agency strength.....	100

Table3.11	One way independent ANOVA for comparing means of split difference under varying agent strengths.....	101
Table3.12	Contrast test of one way independent ANOVA for split difference under varying agent strengths.....	101
Table3.13	Post hoc tests of one way independent ANOVA on agent strength conditions.....	102
Table3.14	Mean and SD of the ‘SD of all offers’ under various agent strength conditions.....	103
Table3.15	t-test for comparing SD of offers between minority and majority agent strength.....	104
Table3.16	Paired samples t-test test for comparison of means of ‘absolute split difference of the sum’ in CB between proposer-responder format and when roles are reversed (H-16).....	105
Table3.17	Paired samples t-test test for comparison of means of ‘number of transactions’ for reaching agreement in CB between initial roles and when roles are reversed (H-17).....	105
Table3.18	Pearson’s Correlation between ‘length of experience’ and CB outcomes....	106
Table3.19	Independent samples test for comparison of means of ‘Split difference’ and gender.....	108
Table3.20	Means of split difference for joint effect of cognitive load and gender.....	109
Table3.21	Pearson’s Correlation between ‘RFQ score’ and ‘Absolute split differences’	110

Table3.22	Pearson’s Correlation between ‘RFQ score’ and ‘SD of all offers’	110
Table3.23	Descriptive Statistics viz. min-max, means, SE, and SD of Collective bargaining outcomes (viz. agent shares, DV-1, and DV-2) in Profit-sharing.....	112
Table3.24	Proposed Hypotheses and Experimental Proof.....	112
Table 4.1	Treatments – Within subjects 3x3 study of PMS with 3 Performance Bands: (Top vs. Middle vs. Bottom) x3 Performance levels: (Highest vs. Average vs. Lowest).....	120
Table 4.2	Descriptive statistics of Mean, SD of items of Opportunistic behavior	126
Table 4.3	KMO Statistic of items of Opportunistic behavior.....	127
Table 4.4	Principal Component Analysis of items of Opportunistic Behavior (Factor loadings).....	127
Table 4.5	Principal Component Analysis of items of Opp. Behavior Component Matrix.....	128
Table 4.6	Mean and SD of the O-B-Q scores at information level-1	131
Table 4.7	One way independent ANOVA for comparing means of O-B-Q scores at information level 1	131
Table 4.8	Contrast test of one way independent ANOVA for comparing means of O-B-Q scores against various performance bands.....	133
Table 4.9	Post hoc tests of one way independent ANOVA on opportunistic behavior (Games-Howell test).....	134
Table4.10	Mean and SD of the Opportunistic Behavior at information level-2	134
Table4.11	Independent samples t-test between Middle-Highest & Middle-Average.....	134

Table4.12	Independent samples t-test between Middle-Highest & Bottom-Lowest.....	135
Table4.13	Independent samples t-test between Bottom-Highest & Bottom-Average....	136
Table4.14	Independent samples t-test between Bottom-Highest & Bottom-Lowest.....	136
Table4.15	Independent samples t-test (OBQ scores) between Top-Average & Top-Highest.....	137
Table4.16	Independent samples t-test of OBQ scores at Top-Average & Top-Lowest	138
Table4.17	Independent samples t-test of OBQ scores between gender –Info level-1.....	140
Table4.18	Independent samples t-test of OBQ scores between gender –Info level-2.....	140
Table4.19	Regression: Model Summary at Information level-1.....	141
Table4.20	Regression: ANOVA at Information level-1.....	142
Table4.21	Regression: Model Summary at Information level-2.....	142
Table4.22	Regression: ANOVA at Information level-2.....	142
Table4.23	Regression: Coefficients at Information level-2.....	143
Table4.24	Independent samples t-test between regulatory orientation –Info level-1.....	145
Table4.25	Independent samples t-test between regulatory orientation –Info level-2.....	145
Table4.26	Proposed Hypotheses and Experimental Proof.....	146

LIST OF ABBREVIATIONS

AMO	Ability, Motivation and Opportunity
BE	Behavioral Economics
CEO	Chief Executive Officer
DM	Decision Making
EUT	Expected Utility Theory
FDI	Foreign Direct Investment
HPWP	High Performance Work Practices
HR	Human Resources
HRM	Human Resource Management
ILE	Institutional Labour Economics
ILM	Internal Labour Markets
IR	Industrial Relations
JDM	Judgment and Decision Making
LE	Labour Economics
MOU	Memorandum Of Understanding
OB	Organizational Behavior
OBQ	Opportunistic Behavior Questionnaire
OD	Organization Development
PE	Personnel Economics
PBT	Profit Before Taxes
PMS	Performance Management System
PRP	Performance Related Pay

PT	Prospect Theory
RBV	Resource Based View
RF	Regulatory Frame
RFQ	Regulatory Frame Questionnaire
SHRM	Strategic Human Resource Management
SMART	Specific, Measurable, Attainable, Realistic, Timely
TCE	Transaction Cost Economics
TU	Trade Union
UG	Ultimatum Game