

This is the peer reviewed version of the following article: DeMattee, A. J., & Rutherford, A. C. (2021). Biases in low-information environments: Understanding for-profit and non-profit salary differentials in Haiti. *Journal of International Development*, 33(7), 1141-1165, which has been published in final form at <https://doi.org/10.1002/jid.3572>. This article may be used for non-commercial purposes in accordance with Wiley Terms and Conditions for self-archiving.

BIASES IN LOW-INFORMATION ENVIRONMENTS: UNDERSTANDING FOR-PROFIT AND NON-PROFIT SALARY DIFFERENTIALS IN HAITI

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KEYWORDS: NGOs, labor economics, decision-making, behavioral economics, Haiti

ABSTRACT: The Global South contains low-information environments that impose information search costs for employers deciding what to pay to local employees. This paper compares explanations for how employers make salary decisions in these environments. To do so, we analyze 843 salary-level observations collected from 77 private employers in Haiti, including local and international non-profits and domestic and foreign businesses. While preliminary findings suggest that international non-governmental organizations (INGOs) pay above-market salaries, accounting for alternative explanations from behavioral economics causes the organizational form's importance to dissipate. We find that two processes—an anchoring mechanism and a framing mechanism—influence managerial decision-making. These findings direct analysts and practitioners to focus more on the actions and tools managers use to make decisions in low-information environments and less on blunt organizational taxonomies.

INTRODUCTION

A standard critique in developing countries is that employees at international non-governmental organizations (INGOs) get paid more than equally-qualified individuals employed by governments (Zanotti, 2010; Cailhol et al., 2013; Warne Peters, 2013; Kuah-Pearce & Guiheux, 2014; Lemay-Hébert et al., 2020). Yet, there is little discussion given to how INGOs' salaries compare to other private employers—such as local NGOs and international businesses—that provide livelihoods, services, and tax revenue. Employers in all sectors face incentives that justify higher salaries as a means to attract the personnel necessary to achieve organizational success. Such premiums, or “efficiency wages” (Yellen, 1984), are believed to prevent employee shirking, reduce turnover and training costs, attract high-caliber employees, and induce higher morale. Efficiency wages are an essential starting point, but they do not explain why INGOs seem to be the only organizational form accused of paying unnecessarily high salaries. Haiti is

our entry point for understanding salary disparities in low-information environments. We chose the country because it has an INGO sector sufficiently large to permit comparisons between non-profit and for-profit employment.

The situation in the Global South offers unique advantages for some employers. In countries such as Haiti, international employers enjoy a resource advantage over many local organizations that they can use to attract more capable employees (Chege, 1999; Schuller, 2009; Brass, 2016; Pickup, 2018). Not only might foreign firms have larger budgets, but they may also finance themselves with more stable currencies such as US dollars and Euros. INGOs can then pay in denominations other than those susceptible to devaluations, such as the Haitian Gourde (1989, 2015-current), the Zimbabwean dollar (2006-2009), and the Venezuelan bolivar (2018-2019). Stable currencies and other perks¹ may substitute for higher salaries while achieving the same aims as efficiency wages. With this in mind, we might expect INGOs to pay *lower* salaries to local employees than other private employers. For instance, Canadian faith-based INGOs pay employees less than their secular counterparts, suggesting that religious employees willingly sacrifice pecuniary compensation for divine service (Davis, 2019).

While international employers may enjoy certain advantages in such contexts, a low-information environment disadvantages all employers by increasing search costs related to decision-making. While local or long-time operating organizations may experience lower search costs than foreign or new employers, the characteristics of low- and middle-income countries raise an interesting question: how do employers decide what to pay workers in low-information environments? Is it as simple as “INGOs pay more,” or are other factors relevant? Figure 1 presents data that motivates our study. The figure plots salaries from employers with various

¹ These represent non-pecuniary benefits associated with employment—e.g., status, travel, networking, skill development, and working for an organization whose mission aligns with an individual's values or beliefs.

years of experience operating in Haiti (x-axis). After comparing INGO and non-INGO salaries of Haitian employees (y-axis), it does not appear to be the case that INGOs systematically pay higher salaries than non-INGOs. But the scatterplot does not control for position type, employee qualifications, or employer characteristics. This analysis considers those factors as it explains how private employers decide what to pay Haitian employees in the country's low-information environment.

Figure 1. Salaries Paid by Employers to Haitian Employees
<<insert figure here>>

Labor statistics and salary information in contexts like Haiti are challenging to find or non-existent. Lemay-Hébert et al. (2020, p. 623) explain that the “poor quality of available data,” inability to access private information, and the fact that “salary and allowance surveys, are not readily accessible to researchers” hamstring efforts to conduct a rigorous analysis of Haitian employment practices. We overcome these barriers using original data collected from private employers. The data contain employee- and employer-level information that is necessary for the analysis. Unfortunately, the sample does not contain data from public entities such as the Haitian government, embassies, or international organizations. Although it is not representative of Haiti’s labor market, much less of other developing countries, our research provides a valuable opportunity to examine a relevant and understudied topic.

We apply two mechanisms of behavioral economics to investigate decision-making in low-information environments. The first is local anchoring, which occurs when decision-makers solicit credible information from expert sources. The second is international framing, seen when decision-makers reference endogenous reference points to make decisions. Our initial analysis

supports arguments that INGOs pay above-market wages to Haitian employees. However, this relationship diminishes as we account for alternative explanations from behavioral economics. Our analyses show that anchoring and framing robustly predict salaries.

The paper proceeds as follows. The next section explores alternative explanations for how private employers make salary decisions in developing countries. We begin by discussing salaries as a rational decision and review evidence from around the world that suggests INGOs pay higher salaries than other employers. We then discuss theories from behavioral economics that are central to our analysis. For each explanation, we first review the literature and then present formal hypotheses. We describe our research design and data collection procedures in the third section. The section contains a short discussion on the modeling strategy we use to manage the data's nested structure and minimize Type I errors. After reviewing our findings, we conclude with recommendations to public officials, practitioners, and researchers.

SALARIES AS A RATIONAL DECISION

Empirical evidence from East Asia (Huff-Rousselle & Pickering, 2001; Barr et al., 2005; Kuah-Pearce & Guiheux, 2014) and Sub-Saharan Africa (Pfeiffer, 2003; Cailhol et al., 2013; Warne Peters, 2013) suggests that INGOs pay significant premiums over other employers in developing countries. In the “Republic of NGOs” (Fass, 1988, pp. 22-23), many Haitians, foreign aid workers, and researchers commonly believe INGOs pay higher salaries than other employers (Lemay-Hébert et al., 2020), but disagree on how and why such a salary premium exists, and what—if anything—should be done about it.

One explanation for excessive financial compensation is to attract and retain employees. In developing countries, employers may find it challenging to find suitable employees and therefore willingly offer above-average compensation to retain those services. Yellen (1984) formalizes

this possibility as efficiency wages and explains that employers pay workers more than the market-clearing wage required by potential replacements for organizational efficiency reasons: prevent shirking, reduce turnover and training costs, attract high-caliber employees, and improve morale. Higher salaries are thus a rational decision to achieve organizational needs. These needs may become more acute in developing countries as skilled labor migrates to the Global North (Agbibo, 2012).

Some researchers argue that INGO salary practices are rational, harmless, and equitable (Stoddard, 2012, p. 347). Yet others disagree. In a cross-national study of developing countries, organizational behavioralists find the pay ratios between international and national staff exceed acceptable thresholds and create a sense of injustice, demotivation, and workplace dissatisfaction (Carr et al., 2010). Critics further observe that INGOs' compensation schema reinforce global structures of inequality when, for example, they choose to pay an inexperienced European "roughly triple" what an Angolan professional with better credentials and decades more experience receives in the same position (Warne Peters, 2013, p. 280).

Another explanation for excessive compensation is that certain organizational types have greater resources to attract and retain employees. Ethnographic data from Mozambique describes working for an INGO as "winning the lottery;" in one year, "one could potentially earn the equivalent of 20yrs' salary in the [National Health Service]" (Pfeiffer, 2003, p. 732). Analysts identify a similar process in Cambodia, where public agencies serve as a training ground for healthcare workers to earn education and experience (Huff-Rousselle & Pickering, 2001). Once employees possess the necessary skills, they are "attracted away—in a 'brain drain' phenomenon" by INGOs who "offer better salaries and fringe benefits" (2001, p. 44). Similarly, interviews with Médecins Sans Frontières (MSF) staff in China show salary—alongside the

English language environment and the opportunity to earn new skills—was a key reason for joining MSF and increased their salary overnight by 30-100% (Kuah-Pearce & Guiheux, 2014).

Researchers identify this same pattern in other low- and middle-income countries. In an analysis of Sub-Saharan African countries, analysts assess the degree to which global health initiatives (GHI) programs affected the stock of public-sector employees (Cailhol et al., 2013). All five countries—Angola, Burundi, Lesotho, Mozambique, and South Africa—lost valuable employees to INGOs. The drain was so severe that governments took actions to attenuate the “poaching” of healthcare employees (Ibid, p. 2). In Angola and Mozambique, governments instituted policy that harmonized salaries across sectors. In South Africa, the state spearheaded “‘anti-poaching’ agreements” so that GHI-funded programs would not deplete the stock of qualified workers (Ibid, p. 9). In Lesotho, Mozambique, and Burundi, governments introduced compensation incentives and “financial top-up[s]” to dissuade migration from public service (Ibid, p. 9). Research from Haiti shows that INGOs’ higher salaries lead to “the poaching of local skilled workers” that saps talent from the public sector (Lemay-Hébert et al., 2020, p. 621).

To summarize, researchers argue INGOs’ pursuit of organizational performance and attempt to decrease inequality between foreign staff and national hires, combined with their comparative resource advantage, leads them to pay local employees higher salaries than other private employers. These factors, supported by suggestive evidence from several continents, underpin the organizational form hypothesis:

H₁ Organizational Form—INGOs pay higher salaries than other private employers.

DECISION-MAKING IN LOW-INFORMATION ENVIRONMENTS

Perhaps relying on the organizational form and the rational calculation of efficiency wages is too simple and overlooks the activity within and among organizations. Aside from the pursuit

of high-level performance, what other explanations do INGOs have for paying salary premiums? One is that developing countries contain low-information environments that fog private organizations' decision-making. Watkins et al. (2012, p. 285) support this rationale and explain that INGOs are distinctive organizational forms because of the challenges and uncertainties they face while operating in the Global South (see also Brass et al., 2018). This operational environment is beset with principal-agent problems, asymmetric information, and unfamiliar cultural practices and institutional contexts (Watkins et al., 2012, pp. 294-296). In response, employers adapt to uncertainty in various ways, including paying premiums to hire employees able to navigate uncertainty, such as local staff with connections in government or familiarity with local customs and institutions.

When information on local salaries is scarce or imperfect, private employers may overestimate the premium necessary to attract and retain these services. Such imprecise calculations can result from decision-making under uncertainty and may lead to what Angelides and Caiden (1994, p. 230) argue is “serious, systematic and often permanent biases.” Recognizing that developing countries are ecologies of uncertainty requires us to consider alternative explanations to the organizational form hypothesis (**H₁**). These alternative explanations draw on established literature regarding decision-making’s cognitive limits (Simon, 1955; March & Simon, 1958 [1993]) and allow us to consider other private organizations alongside INGOs.

First, in a seminal contribution to behavioral economics, Tversky and Kahneman (1974) introduce the anchoring effect and show individuals form estimates by starting with an initial value, then adjust away from it. Experimental researchers show these adjustments away from the starting value are often insufficient (Barberis & Thaler, 2003) and find that decision-makers

anchor to initial values even when the anchor is implausibly large (Thorsteinson, 2011).

Researchers also find that current and expected salaries act as anchors that affect future salary decisions (Major et al., 1984; Bazerman, 2006). Scholars studying bureaucracies also find that anchors affect public managers' decision-making (for a recent review see Webeck & Nicholson-Crotty, 2019). We expect that access to information on the local labor market anchors managers' decisions. Such information exists throughout the world when private consultancy services—e.g., Birches Group, Culpeppers and Associates, Mercer—produce professional compensation and benefits reports. We expect that when managers pay to access these reports, that they anchor their future salary decisions to the report's information.

To summarize, employers often lack complete information on labor markets, and the low-information environments amplify this challenge. To compensate, employers seek out information such as benefit consultancy reports. Accessing this information engages the anchoring mechanism that biases managers' future decisions. It is necessary to stress that anchoring does not promise that wages will be closer to the true but unknown market-clearing wage of a larger sample. It only predicts that decision-makers anchor to information available to them and then make intentional adjustments either away or towards this anchor (Tversky & Kahneman 1974; Barberis & Thaler 2003). The local anchoring hypothesis is thus nondirectional in this analysis. The data we use to test it is from a private consultancy service that surveyed 37 employers and makes no claims that its sample represents the broader market. Thus, the hypothesis only tests whether the salary paid by an organization is anchored to the information within the professional consultancy report.

It is beyond this article's scope to discuss the size and direction of the anchoring mechanism. Still, some readers may find a discussion concerning these matters relevant to future

work. The effect could be positive or negative depending on the employers that participate and the information they report. A positive and significant anchoring effect implies that the 37 employers that participated in the consultancy survey pay higher salaries, on average, than the 77 employers surveyed for this research. In this scenario, those with access to the information pay salaries above the broader market rate. A negative and significant anchoring effect suggests that the group of 37 employers pay lower salaries, on average, than the 77 employers surveyed here. A small and insignificant anchoring effect would indicate that employers with information on salaries do not anchor their pay to that reference point.

The second alternative explanation is “framing,” defined as psychological principles that govern the perception of choices and outcome evaluation (Tversky & Kahneman, 1981, p. 453). Framing causes individuals to evaluate choices and outcomes compared to reference points instead of unbiased absolutes. And individuals who do not update their reference points make decisions that they would typically find unacceptable (Ibid, p. 456). Researchers find that framing motivates the fair allocation of salaries among hypothetical employees (Mellers, 1982, 1986), and can lead to suboptimal choices and professional bias (Highhouse et al., 1996). “Narrow framing” is a type of mental accounting in which individuals treat decisions as unrelated events as opposed to a collective series of choices (Barberis & Thaler, 2003, p. 1073; DellaVigna, 2009, p. 347).

In this research, we expect framing affects managers when they evaluate salary decisions through endogenous reference points, such as salary norms in an employer’s country of origin. Because decisions are comparative, altering these reference points changes the nature of the comparison.² These reference points frame the manager’s possible choices, and what some

² Consider, for example, the wages of a generic employee that we refer to as a “technician.” Local wages for a mediocre and first-class technician are 1,000 and 2,000 currency units (CUs), respectively. The mediocre

managers perceive as over-paying is reframed as under-paying by managers with different reference points. This subtle difference is crucial because losses loom larger than gains when deciding between options.

Two hypotheses based on behavioral economics explain how employers make salary decisions in low-information environments:

H_{2A} Local Anchoring—Access to the information in consultancy compensation and benefits reports is a significant predictor of salary.

H_{2B} International Framing—Position-specific, home-country salaries positively correlate with local salaries.

RESEARCH DESIGN AND METHODS

Several types of data are required to explain how employers make salary decisions for workers in Haiti. Data for the employer (legal form, sector), position (salary, qualifications), and person (skills, experience) are the most relevant. Unfortunately, Haiti has no such publicly available data (Lemay-Hébert et al., 2020, p. 623). Primary data collection was therefore necessary. Between May and November 2011, we collected 843 position-specific salaries from 77 private employers with accompanying information for position and employee qualifications. The sample—which includes local and international NGOs as well as domestic and foreign businesses—allows for several meaningful comparisons between private employers: local-charitable to local-business, local- to international-charitable, and international-charitable to international-business. These employers have headquarters in seven of Haiti's ten administrative

technician is likely capable, while the first-class technician is almost certainly capable. Reference points cause employers to frame these employees differently: the discount/premium label is different for a *local* employer whose reference point tells him technicians earn about 1,500 CUs versus a *foreign* employer whose reference point tells her technicians earn approximately 7,500 CUs. Unlike the local employer, the foreign employer views both technicians as discounts, with the first-class technician also being less risky.

jurisdictions, with 69% of observations from Ouest and the capital city Port-au-Prince. The appendix contains descriptive statistics for the sector in which employers operate.

We anticipate that the period in which we collected data—i.e., during a time of intense foreign assistance following the January 2010 earthquake—biases our results in predictable ways. First, the post-disaster period coincides with uncharacteristically high levels of funding to INGOs. We anticipate this enlarges the coefficient testing the INGO organizational form hypothesis (H_1), overstating what it would typically be. We anticipate this oversized estimator makes it harder to find evidence supporting explanations based on behavioral economics.

Together, we anticipate the data we use biases our results against our primary argument (H_{2A} and H_{2B}) and in favor of the organizational form hypothesis (H_1). The results section revisits these implications.

Though the sample's representativeness of the broader labor market is imperfect, this analysis provides a rare opportunity to examine how organizations make decisions in developing countries. A later section titled “Limitations and Threats to Inference” discusses generalizability and the possibility of bias in the sample. In that section, we explain that bias would need to exceed 50% of the sample, affecting more than 420 observations, to invalidate our findings.

Data Collection

Data collection used a two-stage survey design. We first scraped online contact information and emailed organizational contacts, inviting them to participate in the academic study. This technique yielded some responses, but contact data were often outdated. Snowball sampling within private-membership organizations proved more effective and yielded additional

participants.³ We contacted association members directly and without discrimination when associations provided their information. Some associations guarded contact information and privately invited members to participate on our behalf.

Two bilingual survey instruments collected the necessary data after an employer agreed to participate. We developed these instruments in English, professionally translated them into French, and back-translated them into English for accuracy. The first asked organizational leaders—e.g., business owners, INGO country directors—to provide employer information such as size, nationality, legal form, and sector. Each employer completed one of these surveys. The second survey collected position-specific information. Organizational managers, such as human resource managers, completed one position survey for each position. This second survey collected information on salary, position responsibilities, and qualifications.

Our analysis focuses exclusively on Haitian employees' salaries, as reported by managers of 77 private employers operating in Haiti. Initial data collection resulted in 897 salary observations. Because labor and living costs differ between developed and developing countries, we exclude salaries for international staff that may influence the analysis even after controlling for employees' nationality. Excluding international employees removed 31 observations, and casewise deletion removed an additional 23 observations.

Model Variables

Dependent Variable

Contained in the second survey is the unit of analysis: *Estimated Salary Offer* (henceforth *salary*), defined as the estimated annual salary a manager budgets for a position filled by an employee with a given skill set. Each position survey asked respondents to identify

³ The American Chamber of Commerce in Haiti (Amcham Haiti), The Association des industries d'Haïti (ADIH), and Chambre de Commerce et d'Industrie d'Haïti (CCIH).

characteristics they believed an acceptable applicant should possess to deserve the lower salary and qualifications exceptional candidates should have to justify the higher salary. This salary range, or *barème de salaire*, is an administrative device familiar to managers in Haiti. *Salary* is measured in thousands of US dollars and defined as the value budgeted for hires with particular qualifications, with bonus pay and other compensation reported separately. Respondents reported twelve-month salaries converted from Haitian gourdes using a 40:1 currency conversion. This rate is generally acceptable at the time of data collection. The average salary is \$14,170 and ranges from \$450 to \$120,2000, with a median value of \$7,500. We repeat all analyses on $\ln(\text{Salary})$ to compare results across estimate alternatives.

Theoretical Variables Tested

Organization is an INGO (*Is INGO* for short) is a dichotomous variable that tests the organizational form hypothesis (**H₁**). The variable takes a value of 1 for all observations from the 21 INGOs (245 salary-level observations). It takes a value of 0 for the referent group of 56 private, non-INGO employers (598 observations). Results are unchanged when an alternative coding strategy uses INGO as a referent group in a categorical variable that includes Haitian NGOs, local businesses, and international businesses. Statistical measures of fit indicate the binary variable is preferred over the categorical measure. Still, INGOs are not a homogenous group (Davis & Swiss, 2020) and a battery of control variables account for differences between them.

Local Anchoring represents the anchoring effect of behavioral economics. In this research, local anchoring occurs when managers seek out information and are then anchored to it (**H_{2A}**). We measure this concept as a binary variable that identifies employers who chose to participate in a professional consultancy survey (participation = 1). We collected this information directly from proprietary consultancy reports. In 2011, 37 employers participated in this professional

consultancy survey, including included private companies but also a number of very well-known international NGOs that happen to operate in Haiti. Participation delivered clients immediate access to the firm’s proprietary online portal that provides current market conditions within the local labor market.⁴ In total, 11% of our sample are from private employers who participated in the professional compensation and benefits survey and had privileged access to its information (Table 1). Of the 21 INGOs in this data, five (73 observations) participated in the consultancy survey and accessed its information. Of the remaining 56 employers, only one (20 observations) participated in the consultancy survey. We group these employers to create the dichotomous variable and test the local anchoring treatment effect. The 750 observations from employers that did not participate in the consultancy survey comprise the referent group.

Table 1. Descriptive Statistics of Independent Variables
 <<insert table here>>

International Framing is a position-level variable that represents the framing bias of behavioral economics. In this research, framing occurs when endogenous reference points bias local decisions (**H_{2B}**). We measure this concept as a continuous variable that varies by position. The measure equals the average compensation for the matching position in the employer’s country of origin.

We calculate this position-level measure for the data's American, British, German, Haitian, and Mexican employers. We first organize the data according to the International Standard Classification of Occupations 2008 (ISCO-08) classification. The ISCO classification allows for

⁴ The private party that performed the compensation and benefits survey provided the 2011 reports voluntarily but asked to remain anonymous. By all third-party accounts, the firm has a positive reputation and many returning clients from the for-profit, nonprofit, and public sectors.

the consistent identification of positions across countries at the same level as the dependent variable.⁵ Next, we collect data from Europe and North America. The Eurostat's Structure of Earnings Survey (SES) 2010 survey provides data for European employers. Similarly, the Bureau of Labor Statistics Occupation Employment Statistics (OES) Survey 2010 provides data from American employers. The BLS survey reports average annual salaries in dollars and organizes them according to the 7-digit Standard Occupational Classification (SOC), which easily corresponds with the ISCO classification.⁶

Third, we estimate comparable data for Mexico using the average annual salaries for Organisation for Economic Co-Operation and Development (OECD) countries. Data from OECD member countries—Germany, Mexico, UK, USA—reasonably approximate salaries for ISCO-08 positions in Mexico.⁷ In 2010, the average annual salary for Mexico was \$14,994, which is 36% of Germany's (\$41,698), 35% of UK's (\$42,760), and 27% of America's (\$56,398). Multiplying these percentages with European SES and American OES salary data generates the Mexico-equivalent estimates for each position. This repeated multiplication process produces three Mexico-equivalent estimates for each position—one each from Germany,

⁵ The categories include: managers (OC1), professionals (OC2), technicians and associate professionals (OC3), clerical support workers (OC4), service and sales workers (OC5), manual workers (OC7-9), plant and machine operators and assemblers (OC8), and elementary occupations (OC9)

⁶ It was straightforward to cross-classify four employee categories: managers (OC1) = management (11-0000); clerical support workers (OC4) = office and administrative support (43-0000); service and sales workers (OC5) = sales and related occupations (41-0000); and manual workers (OC7-9) = construction and extraction occupations (47-0000). Simple averages cross-classified the remaining categories: professionals (OC2) = average[business and financial operations (13-0000), computer and mathematical (15-0000), architecture and engineering (17-0000), physical and social science (19-0000), and legal occupations (23-0000)]; technicians and associate professionals (OC3) = average[community and social services (21-0000), education and library (25-0000), arts and media (27-0000), healthcare practitioners and technical occupations (29-0000)]; plant and machine operators and assemblers (OC8) = average[production occupations (51-0000), transportation and material moving (53-0000)]; and elementary occupations (OC9) = average[healthcare support (31-0000), protective services (33-0000), food preparation and serving (35-0000), building maintenance and grounds cleaning (37-0000), personal care and service occupations (39-0000)].

⁷ OECD.stat data are reported in 2015 constant prices at 2015 USD PPP (purchasing power parity). We converted all data collected for reference salaries into 2015 constant prices at 2015 USD PPP.

UK, USA. Averaging these estimates for each position generates a comparable Mexico position salary.

The fourth step produces similar data for Haiti. We proxy a Haitian indicator using the January 2011 *bareme de salaire* produced by the Haitian Ministry of Finance and Economy to estimate Haiti's ISCO category salaries. This "salary grid" uses a three-tier architecture—category, level, class—to assign salaries. We average salaries within the highest tier to estimate ISCO salaries for managers, professionals, technicians, clerical support, service and sales, and elementary occupations. We estimate salaries for manual workers and plant and machine operators using the Haitian minimum wage (200 HTG/day) and assume employees work five days/week, 52 weeks/year, minus the 15 official holidays.

Employee-Level Control Variables

The survey instrument collected data at the same level as the dependent variable for seventeen *positions* and a battery of employee characteristics. *Worker autonomy* controls for the amount of time and energy an organization expects to spend supervising the employee.

Computer literacy and training measures the amount of computer literacy and on-the-job computer training required. *Professional experience* measures the amount of prior professional experience employers expect applicants to possess. *Education* indicates the highest educational level employers expect applicants to complete. *Reads English* categorizes observations according to the expectation that they read English. The appendix contains descriptive statistics for these employee-level control variables (Table A).

Employer-Level Control Variables

The appendix contains descriptive statistics for employer-level control variables (Tables B and C). *Is INGO* is a dichotomous variable that represents INGO employers. Haitian secular and religious non-profits and local and international businesses comprise the referent group. *Sector*

reorganizes the 14 subsectors available to respondents on the surveys into three broader categories for analysis: public goods and services, private goods, and private services. Non-profits dominate the public goods and services sector while businesses dominate private goods. Both employer types report activities in the private services sector. Forty-four employers are *located in the Ouest*, which contains Port-au-Prince, and more than two-thirds of employers are *Haitian*. The average organization employs more than 200 *full-time employees* and has over 20 *years of experience operating in Haiti*.

Modeling Strategy

The data structure of salaries collected from employers is inherently nested. One implication of this is that observations may cluster as salaries from the same employer are more similar to each other than salaries from other employers. Another implication is that estimates for employer-level variables will unfairly benefit from repeated observations. Unless accounted for, this data structure shrinks standard errors and inflates Type I error rates (Hox, 2010; Clark & Linzer, 2015). Another threat to inference is the presence of unobserved differences between employers of the same type. For example, the emphasis on project documentation (Krause, 2014) coupled with the trend towards project-based planning (Freeman & Schuller, 2020) within the development sector may constrain an INGO's decisions on hiring practices to those stipulated in grant requirements and project plans.⁸ Although these institutional arrangements are beyond the scope of our analysis, it is still necessary to control for their effect on our results. Multilevel and hierarchical models parsimoniously manage this clustering while accounting for unobserved, group-level heterogeneity (Gelman & Hill, 2007).

⁸ We thank the reviewers for reminding us that employers of the same organizational form may face different institutional constraints and incentives.

A hierarchical-level model (HLM) appropriately partitions the variance at the employee- and employer-levels while controlling for differences in organization, position, and employee. The empty model calculates that the data's intra-class coefficient is 0.47, indicating that employer-level variation accounts for 47% of the variance in salary. This justifies using the HLM approach. Further, the number of employers exceeds the recommended 30-50 groups necessary to attenuate Type I errors (Hox, 2010; Lorah, 2017).

Initial analyses compared two HLM models. The first used random-intercepts that allowed intercepts to vary by employer. The second used random-slopes allowed slopes to vary by position. We use the random-slopes model for three reasons. First, while the random-intercept model explains 62% of the outcome's variance, the random-slopes model explains 67%. These explanation-of-variance values use the level-one explained proportion of variance formula (7.2) in Snijders and Bosker (1999). The Bayesian Information Criterion (BIC) also supports the random-slopes as the baseline model. Decreasing BIC values indicate an increasing ability to fit the variation in the outcome, and a decrease of 10 points or more indicates substantial evidence to support one model over another (Raftery, 1995). In our analysis, random-slopes reduce the BIC by over 70 points. Finally, while the random-intercept model relies on dummy variables to control for position type, the random-slopes model accomplishes the same control using fewer degrees of freedom.⁹

⁹ The model used in this analysis can be specified as follows:

$$y_{ij} = \gamma_{00} + \gamma_{10}(\text{EXPERIENCE}_{ij}) + \gamma_{20}(\text{AUTONOMY}_{ij}) + \gamma_{30}(\text{COMPUTER}_{ij}) + \gamma_{40}(\text{EDUCATION}_{ij}) + \gamma_{50}(\text{ENGLISH}_{ij}) \\ + \gamma_{01}(\text{LEGALFORM}_j) + \gamma_{02}(\text{ANCHORING}_j) + \gamma_{03}(\text{FRAMING}_j) + \gamma_{04}(\text{YEARSOPERATING}_j) + \gamma_{05}(\text{EMPLOYEES}_j) \\ + \gamma_{06}(\text{SECTOR}_j) + \gamma_{07}(\text{PAP}_j) + u_{1j} + u_{0j} + r_{ij}$$

y_i : salary for an individual_i nested within employer_j
 γ_{00} : random intercept estimate
 $\gamma_{10}, \dots, \gamma_{50}$: slope coefficients for the relationship between each level-1 predictor and the response variable
 $\gamma_{01}, \dots, \gamma_{07}$: slope coefficient for the relationship between each level-2 predictor and the response variable
 u_{1j} and u_{0j} : disturbance terms for the randomly varying slope coefficients and random intercept, respectively
 r_{ij} : level-1 standard error

RESULTS

The following tables show the results of our analyses. Table 2 uses salary (in thousands of US dollars) as the dependent variable, while Table 3 uses the natural logarithm of salary to compare results for consistency across estimate alternatives. We omit controls from each table to save space and provide full results in the appendix. Our discussion focuses on Table 2 because results are similar across dependent variables. The baseline specification (Model 1) controls for employer and employee characteristics and provides initial confirmation of the organizational form hypothesis (**H₁**) that INGOs pay higher salaries than other private employers ($p < 0.01$). Model 2 reproduces this finding using a category variable that accounts for differences in employer types. The remaining models test this finding's durability in the presence of alternative explanations.

Table 2. Regression Results—Primary Analysis

<<insert table here>>

Variation exists among employers exposed to the local anchoring treatment. Exposed employers participated in a professional consultancy survey and received salary information from the report (Table 1). Specifically, 11% of the sample (93 of 843 observations, 6 of 77 employers) are in this exposed group. The local anchoring hypothesis (**H_{2A}**) predicts that these employers experience an information anchoring effect that does not affect employers who lack access to the consultancy report. The local anchoring model (Model 3) shows participation in consultancy surveys is a strong predictor of salaries when controlling for employee qualifications and organizational characteristics. Employers exposed to the anchoring effect report salaries that are, on average, \$13,500 higher than the control group ($p < 0.001$). In initial confirmation of **H_{2A}**,

exposure to the consultancy report's information creates an anchoring effect that biases salary decisions.

The anchoring effect's directionality is beyond the scope of this article but deserves discussion. One possibility is that the organizations that paid to participate in the consultancy report are markedly different than those in our sample. Our working explanation is that the positive directionality suggests the consultancy participants are resource-rich organizations that generally pay higher salaries than the larger sample studied here. Returning to the organizational form hypothesis (**H₁**), the model suggests the INGO organizational form remains significant ($p < 0.05$), although the effect size and significance both decrease once we account for the local anchoring. Testing rejects the hypothesis that the local anchoring effect and the INGO organizational form are equal at the 0.01 level ($X^2(1)=7.65$).

Our international framing hypothesis (**H_{2B}**) predicts that referencing home-country compensation levels engages a framing effect that biases salary decisions and causes local salaries to positively correlate with home-country salaries. The results conform with our predictions and show the framing effect has a positive relationship with salary (Model 4). For the average employer, for every standard deviation increase in home-country compensation level, about \$34,500, the salary offered locally in Haiti increases by \$3,450 ($p < 0.001$), holding other variables constant. This result is insensitive to the inclusion of country fixed effects. In initial confirmation of **H_{2B}**, the salaries in an employer's country of origin act as endogenous reference points that cause a framing effect that positively correlates with local salaries. The INGO control is insignificant after controlling for the international framing hypothesis.

Table 3. Regression Results—Estimate Alternative

<<insert table approximately here>>

Model 5 tests all hypotheses simultaneously. When evaluated together, the organizational form hypothesis lacks statistical support. Local anchoring and international framing, by contrast, retain their effect sizes and remain statistically significant at the 0.001 level.¹⁰ The following figures show the effect of local anchoring and international framing across the dataspace. These figures show the average marginal effects (Long & Freese, 2014, pp. 171-295) of local anchoring for all employers (left panel) and INGOs only (right panel). Holding all other predictors at their means, dashed lines represent that the local anchoring effect is present and solid lines indicate it is absent. These figures show that for an otherwise average position, the salary is generally higher for employers that participate in the consultancy compensation and benefit surveys. In further confirmation of **H_{2A}**, local anchoring is significant across the dataspace with respect to organizational size (Figure 2) and home-salary reference points (Figure 3). The positive slopes in Figure 3 correspond to the positive coefficients in Table 2 and show position-specific salaries in an employer's home-country positively correlate with local salaries. This evidence further supports **H_{2B}**.

Figure 2. Marginal Effect of Local Anchoring across Organizational Size (95% CI)
 <<insert figure here>>

Figure 3. Marginal Effect of Local Anchoring across International Framing (95% CI)
 <<insert figure here>>

The remaining specifications serve as robustness checks comparable to Model 5. We first rerun the full specification on only INGO observations (Model 6). We do this to address the possibility that the model cannot disentangle the organizational form effect from the local anchoring effect because the factors are too highly correlated. The restricted sample contains 245

¹⁰ We anticipate heightened levels of foreign assistance biases our results against these hypothesis.

observations nested within 21 INGO employers. Seventy-three of these observations are from five INGOs that participated in the consultancy report. In this restricted sample, the anchoring (+13.04, $p < 0.001$) and framing (+0.07, $p < 0.001$) effects retain their significance and effect size.

The remaining specifications retest our findings using additional controls that account for organizational differences. Model 7 substitutes a category variable to control for differences among employer types. Haitian businesses, the category with the most observations, serves as the referent category. Model 8 does the same and adds a dichotomous control for private employers that self-identified as religious organizations. The results show the anchoring and framing effects retain their significance and effect size in both models. Religious organizations appear to pay lower salaries ($p < 0.10$), but data limitations prevent us from making strong claims on this relationship.

The final robustness check reintroduces international employee salaries that we omitted from our primary analysis. We do this for two reasons.¹¹ First, employers who hire expats may be motivated to increase equality among workers by increasing Haitian salaries. We expect that including international salaries positively affects the coefficients controlling for organizational type and absorbs excess level-two variation that increases the model's precision. The second reason for including international salaries is that private employers may apply separate logics or access different information when hiring an expat versus a Haitian. In this case, we expect that including international salaries diminishes the size and significance of the anchoring and framing effects because something unobserved predicts those outcomes. Including the thirty-one

¹¹ We thank the reviewers for raising these possibilities.

international salaries does not affect our primary findings that local anchoring and international framing remain strong predictors of salaries (Model 9).

Limitations and Threats to Inference

Generalizability and bias in the sample are two considerations that deserve attention. Haiti is not representative of all developing countries. Its colonial past, historic march into independence, and the long series of unfortunate events that followed make it an outlier in many respects (Nicholls, 1986; Fatton, 2006; Jung & Cohen, 2020). Yet, Haiti has much in common with other societies. Foreign interference in Haitian affairs has been a constant feature of its history, profoundly shaping its economic development and political institutions. But not always for the better, unfortunately. And like many developing countries, Haiti has a large and diverse informal economy and a strong presence of INGOs dating back to the mid-20th century (Maguire, 1981; Schwartz, 2008; World Bank, 2012). We acknowledge that our dependence on primary data and Haiti's sizeable informal economy limit the ability to make strong claims regarding the representativeness of the data studied here. Despite the data's limitations, we maintain this analysis is a valuable contribution to practitioners and researchers because it provides insight into how managers make decisions in low-information environments.

We now assess the threat to inference due to bias and then compare that threat to similar studies using secondary data. Following Frank et al. (2013, p. 439), we assess the risk to validity caused by a biased sample. The baseline model (sample size 843 observations, 77 groups, 17 parameters) estimates that INGOs pay salaries that are, on average, nearly \$7,000 more than other organizational forms (6.95, $p < 0.01$) with a standard error of 2.218. Combining this

information shows the conservative threshold for statistical significance is 37%.¹² This value means that given the estimated effect's size and precision, invalidation of inference occurs if at least 37% of the effect size is due to sampling bias. Similarly, in the full model (Model 5), the threshold to invalidate inference of the local anchoring effect is 63%. This means that in order to invalidate the inference of the local anchoring effect, 63% of the sample (531 of the 843 observations) would have to be replaced with observations for which the effect is 0. To invalidate inference of international framing, 51% of the sample (429 observations) would have to be replaced with cases for which there is no effect.

How does the threat to causal inference in this study compare to prior scholarship that studies salary differentials between non-profits and for-profits? We calculate that to invalidate the inference in Preston's (1989) seminal work, bias must account for 22% of the effect size in her smaller sample of 311 employees (p. 448) and 84% in her larger sample of 8,313 employees (p. 454). Narcy (2011) uses the INSEE French Labour Force Survey (1994-2001) and its sample of 40,073 employees. To invalidate inference in the French study, we estimate 51% of the total effect size must be attributable to sampling bias. In straightforward terms, the threat to inference caused by a biased sample is less concerning in our analyses than similar studies that use either cross-sectional or panel data.

One thing to remember when comparing these threats to inference is that our study finds employer-level clustering of salaries accounts for nearly half of the variance in the dependent variable. When such a considerable amount of variance in the outcome occurs at the group level, the standard errors produced by hierarchical-level models are wider than standard OLS regressions, which means estimates from HLMs face a harder test for bias as a threat to causal

¹² For calculations and interpretations see "The Robustness of an Inference: Comparing Evidence Against a Threshold" and "Example" subsections in Frank et al. (2013, pp. 439-440, 443-452).

inference. This is noteworthy because earlier studies using secondary data did not account for intra-employer salary correlation. Not accounting for clustering incorrectly shrinks the standard errors of regression coefficients and understates the threat to validity in existing research caused by a biased sample.

CONCLUSION

We have used this article to evaluate alternative explanations for salary differentials in low-information environments. Practitioners and analysts generally acknowledge that in developing countries, INGOs pay salary premiums that disrupt local labor markets and sometimes lead governments to enact policy that limits organizational autonomy (Huff-Rousselle & Pickering, 2001; Pfeiffer, 2003; Cailhol et al., 2013; Kuah-Pearce & Guiheux, 2014; DeMattee, 2019b, 2019a, 2020; Lemay-Hébert et al., 2020). While it may be true that INGOs' salaries disrupt local labor markets, a lack of reliable information limits our ability to understand why such salary differentials exist. We have attempted to fill this gap by comparing suggestive evidence that INGOs pay higher salaries against theory-driven explanations of decision-making. Our analysis tested these competing explanations using original data of 843 Haitian salaries reported by 77 private employers in Haiti.

We find access to credible local salary information is a key predictor of salaries in Haiti. This relationship is a manifestation of the anchoring effect on decision-making (Tversky & Kahneman, 1974; Barberis & Thaler, 2003). The data show that employers with access to a consultancy report of local compensation practices pay significantly different salaries—and in this case, higher—compared to employers that lack access to the same information. Our explanation for this is that employers that participate in consultancy reports are resource-rich organizations that generally pay higher salaries than the broader labor market. Participating in

these benefits reports and later accessing the information reinforces that behavior. We expect the anchoring effect would diminish if consultants surveyed a representative sample of all employers. The analyses also show that salaries in an employer's country of origin act as an endogenous reference point for local salaries, which indicates that a framing effect (Tversky & Kahneman, 1981; Barberis & Thaler, 2003) influences salaries in low-information environments.

We find no evidence that the INGO organizational form reliably predicts salaries. The analyses indicate that the INGO organizational form's effect disappears once we account for the information available to decision-makers. This phenomenon may not be limited to Haiti and may replicate in other jurisdictions where information is sparse. The null result does not exonerate INGOs in the debate about their role in an internal "brain drain." Public institutions declined to participate in our study, leaving us unable to make strong claims on that matter. Yet, our findings allow us to offer three predictions to that research topic. First, the INGO form does not singularly determine salaries. We observe significant between-INGO variation in local salaries even after accounting for organizational, position, and employee differences. Second, if INGOs contribute to an internal "brain drain," we predict it is unlikely that all INGOs are equally complicit. The INGOs that contribute to the "brain drain" phenomenon likely share some characteristic(s), including nationality, funding expectations, or operational focus. Third, the factors that cause some INGOs to contribute to the "brain drain" could well operate through other employers. In particular, embassies, international organizations, for-profit development organizations such as Chemonics and DAI, and international businesses may also be key actors if they have access to the same information and resources as brain-draining INGOs.

In summary, this analysis finds evidence that employers rely on local and international reference points to make decisions in low-information environments. More broadly, it

contributes to our understanding of managerial decision-making in developing countries by identifying some of the tactics decision-makers use to overcome information shortages, such as paying for access to local knowledge or evaluating endogenous reference points. We stress that such tactics do not ensure rational and unbiased decisions. Indeed, the opposite may be true and tactics may initiate anchoring or framing effects that bias decision-making in suboptimal ways.

This work underscores the importance of available and reliable information. Public leaders—whether elected officials, foreign administrators, or representatives of international bodies—should consider ways to increase the amount of information circulating among public and private organizations. One way of doing this for salaries is to expand the scope of compensation consultancy surveys so that the number of participants is more representative of the local economy. Another tactic is to make recent compensation reports available to interested parties to attenuate information asymmetries that disadvantage smaller or cash-strapped employers. Where information is sparse, or the environment becomes less certain, practitioners should consider associating more with local governments, businesses, and civil society actors so that all sectors can share and learn from each other. As Nolte and Boenigk (2013) explain in their study of ad hoc networks in Haiti, associations offer members the opportunity to learn and exchange information, and the more diversified the groups, the larger the opportunity to learn new information.

APPENDIX

Appendix Table A: Frequency of Observations by Sector and Legal Form

<<insert table here>>

Appendix Table B: Descriptive Statistics of Employee-Level Variables

<<insert table here>>

Appendix Table C: Descriptive Statistics of Employer-Level Variables

<<insert table here>>

Appendix Table D: Primary Analysis Regression Results (Complete Results)

<<insert table here>>

Appendix Table E: Robustness Check Regression Results (Complete Results)

<<insert table here>>

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