



Competition and social identity in the workplace: Evidence from a Chinese textile firm[☆]



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ABSTRACT

We study the impact of social identity on worker competition by exploiting the well-documented social divide between urban resident workers and rural migrant workers in urban Chinese firms. We analyze data on weekly output, individual characteristics, and coworker composition for all weavers in an urban Chinese textile firm during a 53-week period. The firm adopts relative performance incentives in addition to piece rates to encourage competition in the workplace. We find that social identity has a significant impact on competition: a weaver only competes against coworkers with a different social identity, but not against those sharing her own identity. The results are mainly driven by urban weavers competing aggressively against rural coworkers. Our results highlight the important role of social identity in mitigating or enhancing competition.

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1. Introduction

Social identity theory suggests that individuals derive part of their identity from their perceived membership in a social group and, as a result, behave differently toward in-group versus out-group members (Tajfel et al., 1971; Tajfel and Turner, 1979).¹ Social identity can play a significant role in economic decision making, leading to seemingly irrational economic behaviors (Akerlof and Kranton, 2000). Despite its importance in organizational contexts (Hogg and Terry, 2000), most empirical evidence on social identity comes from lab experiments, and few studies exist on the impact of social identity

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¹ Tajfel (2010) formally defines social identity as "part of the individual's self-concept which derives from their knowledge of their membership of a social group (or groups) together with the value and emotional significance attached to that membership." Psychologists have accumulated a rich body of theory and evidence on social identity (Abrams and Hogg, 1990; Knippenberg, 2000; Hewstone et al., 2002).

on worker behaviors in a real economic setting.² In this paper we provide novel evidence on the interplay between social identity and worker competition in a Chinese textile firm.

Since an individual's social identity may originate from multiple sources, capturing the effect of a particular identity can be empirically challenging. We overcome this challenge by exploiting a unique setting where a well-documented, deep, and exogenously-formed social divide separates otherwise similar workers. Like many typical urban Chinese manufacturing firms, our focal firm employs both rural migrant workers and urban resident workers as a result of one of the largest rural–urban migrations in history (Zhang and Song, 2003). An individual's "rural" or "urban" status is determined by a highly rigid household registration system (*hukou*), which is subscribed at birth and difficult to change.³ The allocation of social resources heavily favors urban residents and discriminates against rural migrants, creating a powerful institutional divide between the two groups (Wang and Zuo, 1999).⁴ Other than the type of *hukou*, the workers in our sample have almost identical demographic characteristics such as gender, education, and ethnicity. We investigate whether the social identity derived from one's rural or urban status affects a worker's response to competition.

The upper management at our focal firm strives to create a competitive culture in the workplace and uses a combination of piece rates and relative performance pay to incentivize workers. Relative performance schemes have been found to generate intensified competition, diminished cooperation, and sometimes even sabotage amongst participants (Lazear, 1989; Drago and Garvey, 1998; Harbring and Irlenbusch, 2008, 2011; Carpenter et al., 2010). The presence of strong social identities suggests that a worker may compete against her in-group coworkers—defined as those who share the same social identity as the worker—differently from her out-group coworkers. More specifically, there are two potential effects that are not mutually exclusive: (1) social identity facilitates altruism and mitigates competition among in-group members; and (2) social identity creates a powerful "us versus them" mentality and intensifies competition across groups.

We measure individual workers' responses to competition based on how they react to their coworkers' presence. In our setting, there is no team production; each worker is responsible for her own output. Confounding the identification of coworker effects is the potential presence of common determinants of performance such as aggregate shocks. We address this empirical challenge by exploiting the exogenous fluctuations in the composition of workers in our firm due to employee turnover and temporary absence. Similar to Mas and Moretti (2009), we use panel data to predict a worker's time-invariant productivity (i.e., ability) based on estimates from a regression model with worker fixed effects. We then estimate how a worker's weekly performance changes when the average ability of her coworkers changes in that week. Neither the error term nor the worker's performance in a given week could influence the average ability of her coworkers, insofar as there is no systematic rule of assigning workers based on their ability. Our field research confirms that such random assignment is in place, and we also present econometric evidence on the absence of systematic assignment following the test developed by Guryan et al. (2009).

Using panel data on weekly productivity of 287 weavers during a 53-week period (April 2003–March 2004), our analysis reveals that a worker performs better only when working with more able out-group coworkers, but not when working with more able in-group coworkers. Furthermore, we find differential responses between urban and rural workers. Urban resident weavers are particularly sensitive to competition from rural migrant coworkers, whereas rural migrant weavers are less responsive to competition from urban resident coworkers. Our findings demonstrate the important role that social identity plays in mitigating or amplifying incentives that promote competition.

Our results suggest that managers who design incentive schemes without understanding the dynamics of social incentives in the workplace may fail to achieve the intended effects on productivity. Bandiera et al. (2005, 2010) provide compelling evidence that fruit pickers in the UK withhold effort when working alongside their friends under relative performance schemes and conform to the productivity levels of their friends under piece rates. They focus on endogenously formed social ties and show that workers respond to their friends' performance but not to that of the rest of their coworkers. In contrast, we focus on exogenously-formed social groups and find that our weavers respond to their out-group coworkers, yet not to their in-group coworkers. The social divide between rural migrant and urban resident workers in China, induced by national policies and formed long before the arrival of workers at our firm, creates an intensified intergroup competition of "us versus them" in the workplace, likely to a degree that is more extreme than simple friendship. While social identity may lead to friendship and vice versa, they are clearly different social constructs (Hogg and Hains, 1998). Our study thus complements Bandiera et al. (2005, 2010) in two ways: we shed light on a different form of social divide and point to intergroup competition as an alternative channel through which social identity affects the dynamics of worker interaction. Our study also builds

² A series of lab experiments create artificial affiliations with "minimal groups" and find that they generate differential behaviors toward in-group versus out-group members (Bernhard et al., 2006; Charness et al., 2007; Chen and Li, 2009). However, Goette et al. (2012) point out that findings from minimal groups may not generalize to situations where individuals have real social ties. Several experimental studies examine the impact of real social identities in a lab setting, including Fershtman and Gneezy (2001) on Ashkenazic and Eastern Jews, Hoff and Pandey (2006) and Hoff and Pandey (2014) on the caste system in India, and Afridi et al. (2015) on the rural/urban status in China.

³ Chan and Zhang (1999) provide a comprehensive description of the *hukou* system. As of our study period (2003–2004), transferring a *hukou* from rural to urban usually required wealth, home ownership, business ownership, or enrollment in universities. The central government also imposed strict quotas on transfers, which were highly limited compared to the size of the eligible population.

⁴ The vast majority of rural migrant workers in urban areas rely on temporary residence permits, which grant them only minimal access to urban social welfare benefits such as subsidized education and housing. Liu (2005) finds that compared to urban residents who inherited their *hukou* status, rural-born individuals who received an urban *hukou* later in life have significantly lower education attainment and fare worse in the labor market.

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