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journal homepage: www.elsevier.com/locate/jeboTeam building and hidden costs of control[☆]Gerhard Riener^{a,*,1}, Simon Wiederhold^{b,1}^a Department of Economics, Mannheim, Germany^b Ifo Center for the Economics of Education and Innovation, Munich, Germany

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ABSTRACT

In a laboratory experiment, we investigate the interaction of two prominent firm strategies to increase worker effort: team building and control. We compare a team-building treatment where subjects initially play a coordination game to gain common experience (CE) with an autarky treatment where subjects individually perform a task (NCE). In both treatments, subjects then play two-player control games where agents provide costly effort and principals can control to secure a minimum effort. CE agents always outperform NCE agents. Conditional on control, however, CE agents' effort is crowded out more strongly, with the effect being most pronounced for agents who successfully coordinated in the team-building exercise. Differential reactions to control perceived as excessive is one explanation for our findings.

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1. Introduction

Employment relationships are typically characterized by incomplete contracts. Firms thus engage in various strategies to incentivize workers. Two prominent firm techniques in this regard are control devices designed to eliminate workers' most opportunistic actions (see, for example, (Fehr and List, 2004)) and team-building exercises across hierarchies to foster identification with the firm. Both techniques belong to the most widely applied management practices.² Previous evidence from field data points towards an interaction between control and team building at the workplace, suggesting that the nature of the worker–firm relationship affects how workers perceive certain coercive characteristics of employment contracts, such

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² This is indicated, for instance, by Staw and Epstein (2000) in their evaluation of popular management techniques. Buller and Bell (1986) provide an early exploration of the interaction of team building and goal-setting techniques.

as minimum effort requirements or employee monitoring.³ However, these results are likely to suffer from severe confounds due to endogeneity and worker selection.⁴ We thus conduct a controlled laboratory experiment to study whether the social nature of the worker–firm relationship affects the worker’s reaction to control.

We design simple control games in a principal–agent setting without specific workplace framing. The agent provides transfers (effort), which are costly for her but beneficial to the principal. The latter can restrict the agent’s choice set by imposing a minimum effort requirement that the agent is not allowed to fall short of (control). We investigate situations where the agent makes transfers out of endowed income and we elicit her transfer for each control level available for the principal to choose.⁵ Additionally, we test the robustness of our findings across different environments by letting agents engage in a real-effort task, where we use the direct-response method to collect agents’ transfer decisions.

Our treatment manipulation attempts to capture two essential features of team-building activities in the real world, namely, a joint task that facilitates gaining positive experience among team members and mutual judgment about this group experience (Sundstrom et al., 1990).⁶ We propose a novel group induction task that exhibits these features. Subjects in the common experience (CE) treatment play a weakest-link game with pre-play communication and post-play judgment in the beginning of the experiment that is unrelated to the tasks to be performed in later stages. Coordination in the weakest-link game is relatively easy to achieve, ensuring a shared feeling of success in most of the teams. However, failure is still possible, so successfully coordinating pairs are justifiably pleased with their results. Our coordination game reflects that real-world team building typically is not directly related to the actual business of the firm, since its primary objective is to increase mutual support, communication, and the sharing of feelings between team members (Buller and Bell, 1986; Salas et al., 1999). Thus, from the perspective of social identity theory, team building facilitates the emergence of social groups (for instance, Tajfel, 1978; Ashforth and Mael, 1989), a phenomenon increasingly explored in the experimental economics literature (Weber and Camerer, 2003; Eckel and Grossman, 2005; Charness, 2012).⁷ Importantly, the team-building intervention in the CE treatment takes place *before* we establish the principal–agent relationship, that is, participants coordinate as equals first before entering a hierarchical relationship in the control games (for team-building across hierarchies, see (Weber and Camerer, 2003)). This design applies to several real-world situations that are relevant for organizations, for instance, within-firm promotions leading to a change in leadership or company acquisitions. We compare the CE treatment to a treatment where subjects complete a task in isolation in the beginning of the experiment (NCE treatment).

We find that our team-building intervention has important consequences for behavior. CE agents’ transfers exceed those made by NCE agents for each control level. This result clearly suggests that team building has the potential to increase an agent’s intrinsic motivation to act on behalf of the principal. In particular, CE agents generously reward not being controlled. However, when the principal imposes weak control, CE agents’ effort is crowded out more strongly than NCE agents’ effort, indicating higher hidden costs of control for CE agents.⁸ When high effort is easy to enforce for the principal, treatment effects are in the same order of magnitude as in the case of weak control, but do not reach statistical significance. Consistent with treatment effects in transfers, we observe that agents’ control beliefs also differ between treatments. CE agents are always more likely to expect no control and less likely to expect either weak or strong control than their NCE counterparts.

Exploring the channels through which the interaction of hidden costs of control and social distance between the principal and agents operates, we find that treatment effects are driven by those subjects who successfully coordinated in the team-building exercise. For these agents, we expect that team building rendered group identity salient. Agents who mis-coordinated in the team-building task do not react differently to control than do their NCE counterparts. Another mechanism that we can support with our data is that there are treatment differences in the reaction to principals not acting in accordance with agents’ control beliefs. We find that CE agents reduce transfers if the level of control exceeds their subjective control beliefs; NCE agents do not retaliate against such felt excessive control. Since a rising level of control, *ceteris paribus*, increases the likelihood that control beliefs are violated, CE agents’ inclination to punish unexpectedly harsh control behavior offers an explanation for our aggregate finding that CE agents respond more strongly to control than do their NCE counterparts.

³ Akerlof and Kranton (2008) provide case-study evidence from the U.S. steel industry suggesting that “[w]hat matters is not more or less monitoring *per se*, but how employees think of themselves in relation to the firm” ((Akerlof and Kranton, 2008), p. 212). Barkema (1995) documents for a sample of 116 executives of Dutch firms that higher monitoring is negatively correlated with working hours if managers are supervised by an in-house CEO, whereas the correlation is positive if monitoring is implemented impersonally by a parent company. Frey (1993) makes a theoretical argument that in environments where the principal and agent know one another personally, the agent is more likely to interpret being monitored as a signal of distrust than in distant principal–agent relationships. For an excellent overview, see Charness and Kuhn (2011).

⁴ A number of factors—such as economic dependency on the job, organizational tenure, and (informal) organizational structure—simultaneously influence group attachment, reactions to control, and performance (Albert and Whetten, 1985; Ashforth and Mael, 1989; van Knippenberg and van Schie, 2000). Moreover, control-averse individuals are unlikely to apply for a position in a firm in which they expect a controlling leadership style, or they are more likely to resign from such job once its nature is revealed. Thus, in reality, work climate and employees’ personal characteristics (for instance, degree of control aversion) are not mutually independent (Stanton, 2000; Antonakis and Atwater, 2002; Ploner et al., 2012).

⁵ This resembles the experimental design by Falk and Kosfeld (2006). However, we extend the principal’s action space to three control levels to examine within-subject differences in the agent’s reaction to weak versus strong control.

⁶ Geister et al. (2006) show that online feedback in virtual teams increases productivity.

⁷ Common experiences and interpersonal interactions are factors traditionally associated with group formation (for an early reference, see (McDougall, 1920)).

⁸ When control is weak, the crowding out effect of control dominates the disciplining effect in both treatments as NCE agents and CE agents tend to reduce their transfers compared to the no control case.

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