



## Status and relationships in social dilemmas of teams

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### ABSTRACT

A social dilemma occurs when it is optimal for each member of a team to act in his own interest but, if all participants do so, everyone is worse-off than if they had done otherwise. Social dilemmas are often observed in operational processes involving teamwork, such as developing new products or implementing total quality programs. The extent to which an employee cooperates with others is driven not only by material incentives but also by social preferences: individuals have an interest in the welfare of others as well as their own. Two known social preferences are status and relationship maintenance. Multiple studies have shown that status seeking leads team members to compete more whereas relationship building leads them to cooperate more. The question remains of whether these two preferences can coexist and complement one another (as when status seeking triggers effort and relationship building encourages cooperation) or whether they are at odds. In this experimental study we demonstrate that these two social preferences hinder one another: status reduces the collaboration benefit from relationships, and increases only individual, but not collaborative, effort. These results suggest that managerial interventions that promote status seeking and relationship building behavior cannot easily be used simultaneously when motivating teams to perform in situations involving social dilemmas.

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### 1. Introduction

Teamwork is commonly used in firms' operations activities. Over years of modern production and operations management practice, the use of teams has become a norm for problem-solving activities, new product development (NPD), or total quality management (TQM) (Hackman and Wageman, 1995; Pagell and LePine, 2002). Teams are important in the continuous improvement of established processes, and especially in critical operations activities that are organized as projects, for example, information system implementation, and new factory design project (Lawler and Cohen, 1992). Beyond operations within an organization, teamwork has also gained popularity in cross-organizational collaborations facilitated by modern technology, e.g., collaborative teams to respond custom requests between supply chain partners (Keenan and Ante, 2002).

A typical team structure is the cross-functional (or nondedicated) team whose members work for their regular home department as well as for a joint task together with members from other departments (Lawler and Cohen, 1992; Wang and He, 2008). For example, an NPD team usually combines R&D engi-

neers, manufacturing engineers, and people from the marketing department. Teams often have a temporary structure, assembling members with diverse background and expertise and disbanding when the assigned work is finished. The team, as a whole, integrates efforts and contributions from different functions to achieve its goal. Lawler et al. (1992) report that cross-functional teams are implemented by 85% of Fortune 1000 companies for their TQM programs.

Members of a cross-functional team often face the following social dilemma: collaboration could produce a better outcome for all, but it is not fully attainable because individuals are tempted to pursue their own goals while free riding on others' contributions. Social dilemmas are common in work situations that require collaboration. In particular, cross-functional team members must allocate their capacity between collaboration and their regular individual jobs. In the presence of the free-riding temptation, it has been a management challenge to design incentives to foster collaboration in teams.

Individual (competitive) versus team-based (cooperative) rewards have long been studied *separately* from one another, and there seems to be a consensus supporting competitive allocations when people are working independently but collaborative allocations when people are interdependent (Beersma et al., 2003; Deutsch, 1949; Miller and Hamblin, 1963; Rosenbaum et al., 1980; Stanne et al., 1999; Wageman, 1995). Yet the question of whether

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individual and team-oriented rewards can be *combined* has not been answered.

While a reward can be individual or team-oriented, it is not only formal (from incentives) but also informal (peer relationships, recognition of a relative social “status” rank for which people compete). An opportunity to play both motivational sides is widespread in operations—for example, in total quality management (TQM) and new product development (NPD) teams. Should the creation of improvement ideas be rewarded individually (e.g., through a bonus per idea, or recognition for individual ideas) or at the level of the team (e.g., a team bonus, or gratitude from peers)? This range of motivations is relevant in other functions, such as sales, where managers use status competition to elicit effort from sales representatives (Kalra and Shi, 2001) as well as collegial relationships to elicit collaboration (Jones et al., 2005). Could behavioral and informal rewards be used together to influence behavior? Or would they get in each other’s way?

We pose our research question more formally as follows: Can the nonmonetary behavioral rewards of status (individual) and positive relationship (group) act as *complementary* motivations – improving individual performance and group cooperation both – or would they have contradictory, self-canceling effects? In other words, should the manager who is attempting to motivate a team play both angles, competitive and collaborative, or will this backfire? Answers to these questions would make a contribution to reward theory by exploring the interaction effect of individual and team-oriented informal rewards in the context of behavioral operations management (Bendoly et al., 2006, 2010; Loch and Wu, 2007). Our study also contributes to the literature examining behavioral regularities that, in addition to team compensation, should be carefully managed (see Wang and He, 2008, and the references therein).

We design a laboratory experiment with human subjects to answer our research question. Our experimental design recreates the typical structure of cross-functional teams in that the team members must balance the effort on their individual tasks and the effort devoted to teamwork. Our results suggest that combining status and relationship motivations risks backfiring and thus undermining both motivations. These results contribute to behavioral operations management by illuminating trade-offs between various “soft” managerial influence levers.

## 2. Theory and hypotheses

### 2.1. Social dilemmas

A classic study of group performance (Blau, 1954) compared two groups of interviewers in a public employment agency: one group with a competitive culture and the other with a more collaborative culture. Blau concluded with a “paradox”: “the less competitive group as well as the more competitive individuals in the more competitive group were more productive” (p. 535). This study exemplifies the widespread occurrence of *social dilemmas* in teams: selfish choices help the individual but hurt the group.

“Social dilemmas are situations in which each member of a group has a clear and unambiguous incentive to make a [‘selfish’] choice that – when made by all members – provides poorer outcomes for all than they would have received if none had made the choice” (Dawes and Messick, 2000: 111). For example, each team member shirks just a bit (and is better off that way), but as a result the group collectively shows poor performance and is punished. Thus “individual rationality leads to collective irrationality. [...] Social dilemmas are everywhere. It is difficult to imagine a sphere of social life that is not dogged by one kind of social dilemma or another” (Weber et al., 2004: 281).

Social dilemmas embody the trade-off between individual performance and interdependence among multiple individual actors, a trade-off that is representative of many work situations. Most work on rewards has emphasized one or the other, individual performance or group performance: individual incentives work when people work independently, and group rewards when people collaborate (Beersma et al., 2003; Wageman, 1995). Wang and He (2008) buttress these empirical findings with a model.

In white-collar work, nonpecuniary individual rewards have been found to promote creativity, an individual performance endeavor (Hopp et al., 2009). If rewards are only collective, then the best workers may shirk by investing less effort (Wang and He, 2008)—indeed, a study of cost accounting systems in factories showed that eliminating individual-level direct labor cost deviations led to reduced performance (Banker et al., 2002). On the other hand, Flynn et al. (1994: 343) found that total quality management, an intrinsically collaborative set of programs, is supported by human resources practices that emphasize incentives for group performance and an egalitarian (as opposed to competitive and differentiated) approach. Similarly, group cohesiveness supports performance in research and development projects, another intrinsically collaborative environment (Keller, 1986). All of this work has illuminated when to choose individual versus group motivation if the choice is “either-or”, but the *interaction* between individual and group motivation has not been studied.

### 2.2. Social preferences

Social preferences refer to the fact that people “are not solely motivated by material self-interest but also care positively or negatively for the material payoffs of relevant reference agents” (Fehr and Fischbacher, 2002). To illustrate, status refers to a relative payoff (the preference of having more than the reference agent), and relationship maintenance refers to a desire for the other agent to also do well (and thus help him, provided that he respects reciprocity and helps in return).

Social preferences have evolved because humans (indeed, all primates) have faced social dilemmas for as long as the species has existed. Thus, the balancing of individually oriented and group-oriented behavior corresponds to intrinsic behavioral tendencies that are part of the human psychological system (Barkow, 1989; Cosmides and Tooby, 2000). Such balancing is confirmed by researchers in economics (Camerer, 1999) and sociology (Kendrick et al., 2002), who have observed that, although people intrinsically care about more than their own rewards, they also care about the rewards of others (positively or negatively). Sociologists (Bugental, 2000; Kendrick et al., 2002) have identified six fundamental social preferences, of which status (and the related preference of power), relationship maintenance and reciprocity, and coalitional group maintenance are directly relevant to the performance of groups.<sup>1</sup> In organizations, social preferences are the basis of some widely used management practices. Examples include team-building activities, used to develop relationships among team members, and rewards, such as the title of “employee of the month” (a status symbol) for the best performers in teams.

There is ample empirical evidence that people pursue these social preferences not only as means to achieve self-interested economic goals but also as ends in themselves. In economic or

<sup>1</sup> The other three social preferences are self-protection, mate choice, and attachment and offspring care; these are related mostly to situations outside of work. No standard terminology exists yet. Kendrick et al. (2002) called them “social goals” and collapsed reciprocity and group maintenance into one category (“coalition formation”), separating attachment (to parents) and offspring care; Bugental (2000) had only five categories, grouping attachment and offspring care together and leaving out self-protection.

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