



Team governance: Empowerment or hierarchical control[☆]

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ABSTRACT

We investigate the costs and benefits of managerial interventions with a team in which workers care to different degrees about output. We show that if there are complementarities in production and if the team manager has some information about team members, interventions by the manager may have destructive effects: they can distort how workers perceive their co-workers and may lead to a reduction of effort by those workers who care most about output. Moreover, interventions may hinder the development of a cooperative organizational culture in which workers trust each other.

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1. Introduction

One of the most important tasks of managers is to ensure that workers act in line with the interest of the firm or organization. Managers hence frequently intervene in production by monitoring workers, controlling them, or by providing incentives to them. Psychologists have long recognized that these interventions may have negative consequences on motivation (Deci, 1971). Bénabou and Tirole (2003) pioneered the economic analysis of such ‘crowding out of intrinsic motivation.’ Their model and the ensuing literature are concerned with the relationship between a manager and a single worker (see, e.g., Sliwka, 2007; Herold, 2010; Falk and Kosfeld, 2006; Schnedler, 2011). In reality, however, production often takes place in teams with several workers. Moreover, industrial psychologists point out that teams are particularly prone to negative effects of intervention.¹ Here, we argue that managerial interventions reveal to committed team members that a colleague is not committed, which reduces their effort on tasks that cannot be monitored. Managerial intervention hence involves a trade-off between ensuring effort by uncommitted team members and crowding out that of committed ones.

How this trade-off plays out is illustrated in a simple static model with a manager and two workers, A and B, in Section 2. We assume that worker A is publicly known to be committed to the team. In other words, he cares about team output.

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¹ See Stewart (2006) for a survey of 93 studies.

B's commitment is the manager's private information. Production involves two tasks: a normal task with verifiable effort and an extra task with unverifiable effort. Efforts at the extra task are complements in the production of output; that is, any committed worker will only be willing to exert extra effort if his colleague is likely to be committed and matches this effort. So, worker A reduces extra effort when the manager's intervention signals that B is not committed.

We use this model to predict the effects of intervention in teams in Section 3. The nature of the equilibrium depends on the importance of the extra task, and the general commitment in the workforce. First, when the extra task is not important, the manager empowers if and only if B is committed. The manager's information is then perfectly revealed. Compared to a self-managed team, two problems are eliminated: (i) the waste of extra effort by a committed worker who wrongly believes his colleague to be committed and (ii) the withholding of extra effort by a committed worker who wrongly believes his colleague to be uncommitted. The manager does not always intervene, which leads to the interesting observation that the mere presence of a manager sometimes suffices to improve on the outcomes of a self-managed team. Second, when the extra task is important and the general commitment in the workforce is high (so that B is likely to be committed), the manager always empowers the team and worker A always exerts extra effort. The manager hides her information because she does not want to lose this extra effort. As the manager never intervenes, her presence makes no difference, and the team may just as well be self-managed. Third, when the extra task is important but the general commitment in the workforce is low, the manager empowers committed workers, but only occasionally intervenes with uncommitted workers. The manager's information is then partially revealed: sometimes, the manager empowers uncommitted workers. In this case, empowerment deliberately deceives committed workers in order to induce them to exert extra effort. This extra effort is partially wasted because it is not matched by the uncommitted colleague.

In Section 4, we examine three variations of the model to check for robustness. First, we relax the assumption that the manager is perfectly informed. As long as the information held by the manager is independent of that by the workers, interventions continue to be a potential signal for commitment and the essence of our results remains valid. However, since the manager's information may be wrong, sometimes she erroneously intervenes in the work of committed workers who then exert no extra effort. We call this the tragedy of committed but unmotivated workers, which is an unwanted side effect of having a manager. As another variation, we examine the case that all workers' commitment is unknown and find that results are robust. Finally, we look at the possibility that committed workers repeatedly interact, so that effort can become a credible signal for commitment. We then discuss the limits of using this signal to re-establish trust after an unnecessary intervention.

The next section relates our paper to the literature, while the last section concludes.

2. Literature

In the tradition of [Alchian and Demsetz \(1972\)](#), economists have argued that teams are crucial for modern production but that they blur individual contributions.² Following [Holmström and Milgrom \(1991\)](#), we assume that some tasks are easier to observe than others and blend this idea with a small body of literature that more closely investigates the costs and benefits ([Itoh, 1991, 1992](#)) and the organization of team work ([Auriol et al., 2002](#)).

Probably closest to our paper is that by [Sliwka \(2007\)](#) who also considers the effects of managers' intervention on a group of workers. There are, however, important differences. First, Sliwka does not explicitly model strategic interactions between workers. He considers workers of different types: some always stick to promises, others never, while a third type adapts preferences to the prevailing social norm. This type interprets interventions as a sign that it is unusual to stick to promises and then withholds effort. In our paper, workers care about co-workers' preferences because it matters for team production. Worker A knows that his effort will be wasted if B is not committed to the outcome of work. Interventions thus crowd out effort even if people are interested in delivering a decent output. Moreover, interventions distort the build-up of trust in a team, an effect that is not present in Sliwka's paper.

The detrimental effect of interventions on effort has also been explained by appealing to the idea that interventions are a signal about worker's preferences ([Bénabou and Tirole, 2003](#)), the principal's expectations ([Schnedler and Vadovic, in press](#)), the principal's character ([Ellingsen and Johannesson, 2008](#)), the principal's trust in the success of a joint project ([Herold, 2010](#)) or the proportion of egoists in a population ([van der Weele, in press](#)). [Seabright \(2009\)](#) suggests that certain actions cease to work as a signal once they are paid for, while [Schnedler \(2011\)](#) explains why success bonuses may reduce effort by a perceived income effect. In contrast to our paper, none of these contributions examines interventions with teams. We abstract from the question how the team composition and hence its members' preferences may be influenced. This complementary question is studied by [Besley and Ghatak \(2005\)](#) as well as [Kosfeld and Siemens \(2007\)](#).

For most economists, teams are formed to exploit technological complementarities rather than for motivational reasons.³ In industrial psychology, however, the starting point is often that self-governed teams have substantial motivational advantages. Evidence for the positive effects of empowered and self-managed teams abounds. [Kirkman and Rosen \(1999\)](#) summarize a large body of literature on the benefits of self-governed teams and analyze survey data from more than 100

² [Holmström \(1982\)](#) has shown that introducing a principal who is the residual claimant can solve the free-riding problem that is present in such teams.

³ [Che and Yoo \(2001\)](#) provide an interesting theoretical exception, while [Ichniowski et al. \(1997\)](#) present empirical evidence that teams have motivational effects.

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