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Costly Communication and Learning from Failure in Organizational Coordination

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Costly Communication and Learning from Failure in Organizational Coordination*

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Abstract

This paper investigates the coordination failure that arises from combining two small preexisting groups and focuses on the reaction of group members to this change in environment.

In an experiment, small groups were first able to establish a coordination history in a repeated
minimum-effort game; in the second phase, two groups with different histories were combined
into a larger group. Unlike most of the previous literature, subjects could endogenously choose
to communicate in the newly formed group for a small fee. While communication proved to
be necessary for preventing coordination failure in the newly formed group, only every second
subject was willing to implement communication. Particularly, subjects from groups with a less
efficient coordination experience in the first phase were more likely to realize the potential of
coordination failure in the new group and were thus more likely to decide for communication.
The results may be useful for understanding how groups coordinate in changing environments
as they are common in economic contexts.

Keywords: coordination, learning from failure, costly communication, organizations *JEL classification numbers:* C72, C92, D23, L23

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