Does It Matter That There is No “I” in “Team”? Evaluating the trade-offs of individual- and group-based incentives in a single setting

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ABSTRACT

Statements about the relative effectiveness of different types of incentives tend to suffer from two weaknesses. One, they compare the results of studies carried out in different settings. Two, they focus on a single outcome, usually productivity. As a consequence, they overlook contextual variables that may interact with incentives and thus contribute to their success or failure, and they miss potential adverse consequences. In this study, I test the relative effectiveness of two incentive types in a field experiment with warehouse workers at Perfco, a large U.S.-based retailer. The incentives are distinguished by their level of reward: one is tied to individual performance, the other to group performance. I find that both improve productivity and other outcomes, like quality, by comparable amounts. Workers are less satisfied with the group incentive. My approach provides a stronger basis for drawing conclusions about the conditions under which incentives work well. In particular, when work is low in interdependence and individual contributions can be readily tracked, individual incentives appear more effective.