

MONITORING IN TEAMS: USING LABORATORY EXPERIMENTS TO STUDY A THEORY OF THE FIRM

Stefan Grosse
University of Erfurt

Louis Putterman
Brown University

Bettina Rockenbach
University of Erfurt

Abstract

Alchian and Demsetz's (1972) influential explanation of the classical business firm argues that there is need for a concentrated residual claim in the hands of a central agent, to motivate the monitoring of workers. We model monitoring as a way to transform team production from a collective action dilemma with strong free riding incentives to a productivity-enhancing opportunity with strong private marginal incentives to contribute effort. In an experiment, we have subjects experience team production without monitoring, team production with a central monitor, and team production with peer monitoring, then vote on whether to employ the central monitor, who gets to keep a fixed share of the team output, or to rely on peer monitoring, which entails a coordination or free riding problem. Our subjects usually prefer peer monitoring but they switch to the specialist when unable to successfully self-monitor. We provide evidence for situations in which team members resist the appointing of a central monitor and succeed in overcoming coordination and free riding problems as well as for a situation in which an Alchian-Demsetz-like firm "grows" in the laboratory. (JEL: C92, D20, D70, H41, J54, P12, P13)