

# COMPETITION AND CONFLICT BETWEEN ORGANIZATIONAL GROUPS:

## Evidence using Random Assignment to Army Platoons

Lorenz Goette (Federal Reserve Bank of Boston, CEPR, and IZA)

David Huffman (Swarthmore College and IZA)

Stephan Meier (Columbia University, and IZA)

Matthias Sutter (University of Innsbruck, University of Gothenburg, and IZA)

### **Extended Abstract:**

Firms are often organized into working groups, or teams. One potential benefit of this structure is suggested by social identity theory: To the extent that workers come to identify with their team as a social group, they may be willing to help the group even when they have no material incentive to do so. This is because good group performance reflects on own self-perception. Given that financial incentives are typically an imperfect device for ensuring maximum efficiency, this within-group altruism could be an important, additional means of achieving high efficiency of the organization. The tendency to identify with one's organizational group, and behave altruistically on behalf this group, has been called variously "motivational capital" (Akerlof and Kranton, 2005), "team spirit" (Kandel and Lazear, 2002), or "preferences for cooperation" (Rob and Zemsky, 2002).

Although group membership may foster within-group altruism and efficiency, another long-standing hypothesis from social psychology is that strong group ties can trigger costly conflict and hostility between groups (see, e.g., Durlauf, 1999; Hewstone et al., 2002). Individuals become willing to harm performance of other groups, even at personal cost. These wasted resources tend to reduce efficiency. It is thus important to understand the conditions under which organizing members into teams tends to lead to psychological rivalry, and costly sabotage and conflict.

This paper studies the conditions that cause between-group hostility to be more or less pronounced. We test the hypothesis that competition for resources between groups is an important precondition for between-group hostility (Sherif, 1966; Bowles and Choi, 2008). We use random assignment of individuals to platoons in the Swiss army as our group manipulation. We conduct one-shot, anonymous games that capture pro-social behavior, and also potentially costly hostility. Across treatments, we vary whether people play with someone from their own platoon or from another platoon. We also vary whether there is competition between platoons. Unlike previous evidence, our design has the features of random assignment to real social groups, combined with controlled choice experiments. Closest to our paper is the classic “Robber’s Cave” experiment from social psychology (Sherif et al., 1961), where boys were randomly assigned to groups at a summer camp. Different from that study, we use one-shot, anonymous games to isolate altruistic motives, and we study the impact of competition in a between-subjects design.

We find a strong impact of group membership on cooperation. If matched in an anonymous PD game with another member of their own platoon, subjects are much more likely to cooperate than if matched without someone from another platoon. In a second experiment, we add third-party punishment to the PD to examine how group membership affects norm enforcement. Indicating non-selfish norm enforcement tendencies, individuals punish defection even though this sanctioning is personally costly, and do not punish cooperation. We do not find any hostility between groups, in the form of vindictive punishment. Punishment levels, and the condition of punishment on defection versus cooperation, are not affected by the identity of the player punished. However, we do find that the identity of the victim of defection matters: Subjects punish more harshly if another subject defects against a member of the punishers’ platoon. Thus, people are more willing to cooperate with, and defend, fellow group members, but they still cooperate with and enforce beneficial norms for outsiders.

In a second treatment we create a competitive environment, by awarding a bonus to the platoon that earns the highest average payoff. The bonus is too small to change the Nash equilibrium prediction of defection, with equal size groups, and has a trivial impact on predictions for unequal size groups. Thus, the manipulation would have an effect, if at all, through triggering a psychological response to competition. Put another way, the treatment may foster a culture of competition, as with an employee or “group of the month award”, but not

competition that is meaningful in financial terms. We find a large impact of this competitive framing. The competitive environment increases the in-group effect on cooperation substantially. At the same time, there are stronger hostility effects: punishment becomes a tool for attacking outsiders rather than a tool for norm enforcement. Group membership paired with competition for scarce resources thus creates even stronger intergroup conflicts, which partly offset the gains of increased within-group cooperation. We discuss the implications of the results for costs and benefits of team organization, in settings with noncompetitive versus competitive organizational cultures.

Corresponding author:

David Huffman

Swarthmore College

500 College Avenue

Swarthmore, PA 19081

p: 610 957 6139

e: dhuffma1@swarthmore.edu