

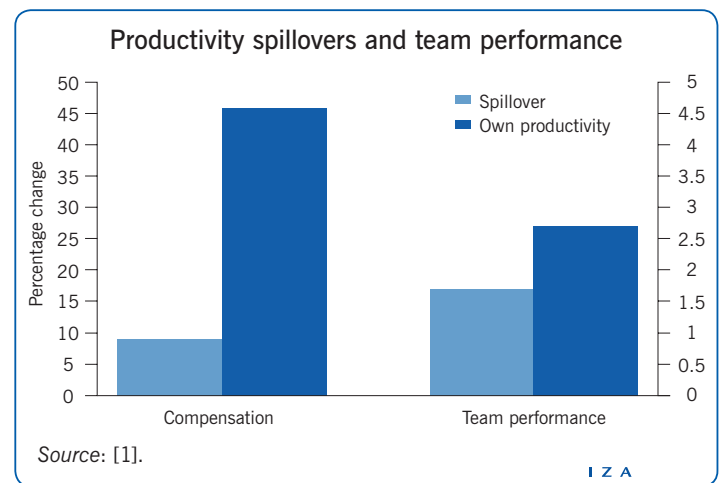
Production spillovers: Are they valued?

Spillovers can contribute to team success, although workers are not compensated for them

Keywords: production spillovers, marginal revenue product, team performance

ELEVATOR PITCH

Workers can contribute to total firm production directly through their own output or indirectly through their influence on the output of co-workers. Workers with positive productivity spillover effects cause individuals around them to perform better and increase overall team production. In contrast to the “peer effects” literature, workers with positive productivity spillovers may not be the workers with the highest levels of personal output. Such productivity spillovers are important for team success even though they play only a minor role in determining worker pay.



KEY FINDINGS

Pros

- + Workers influence team performance through their own output and their influence on the output of co-workers.
- + Workers are generally not appropriately compensated for their influence on their co-workers.
- + Positive productivity spillovers are not limited to high-productivity workers.

Cons

- Productivity spillovers can be very difficult to measure and require high-frequency data on performance.
- Traditional peer effects estimates may not identify productivity spillovers since high-performing workers can create negative productivity spillovers.
- Determining the precise nature of a team’s production function—the physical output of their production process—has proven to be difficult.

AUTHOR’S MAIN MESSAGE

Workers who bring out the best in others do not necessarily have the highest levels of productivity themselves—for example, workers who take time away from their assignment to help a struggling new hire, or academics who provide comments that benefit the work of other researchers, even when their own research productivity is lagging. Firms often undercompensate workers for their indirect impact on team outputs. However, positive production spillovers should be considered when assigning compensation, and firms should look for ways to assign workers into team settings that balance an optimal mix of workers with high productivity and those with positive productivity spillovers.