Bonus Allocation In Teams With Social Preferences

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This essay establishes a bonus pool (pie-sharing) among multiple agents with different allocation mechanisms: discretionary, peer, and supervisor allocation, with imperfect monitoring and favoritism. The findings emphasize that discretionary allocation becomes efficient when agents are either status-seekers or tolerant of being ahead. In contrast, when they are strongly other-regarding, peer allocation delivers incentives with fewer monetary rewards; however, it is prone to misclassification. The supervisor allocation scheme also suffers from the risk of misclassification and favoritism. When monitoring noise is low, incentive costs are stable for different degrees of social preferences. As signals become less informative, the responsiveness of behavioral traits becomes limited. In addition, while status-seeking preferences align with favoritism, this scheme is more costly when agents are strongly other-regarding.