

Relational Contracting and Endogenous Formation of Teamwork*

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Abstract

We study a relational contracting model with two agents where each agent chooses an amount of helping activity for the other's project as well as that for the own project. It is shown that under situations with symmetric agents, the optimal task structure is either specialization without help or teamwork with a substantial amount of help; teamwork with narrow help is never optimal. The commitment problem due to self-enforcing concern limits the sum of the informal bonuses received by the agents. Under this constraint, specialization with high powered incentives can still be implemented by relative performance evaluation. However inducing positive amount of helping effort requires to change the evaluation scheme drastically in order to overcome the multitasking problem. As a result, narrow help is dominated by specialization with high powered incentives.

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