

Handshakes or contracts?

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Neighbouring fire departments often work together to improve outcomes and reduce the extra firefighters each would otherwise need to ensure enough coverage for all emergencies.

But a new study of U.S. fire departments has found improvements differ

for property damage and personal injuries or deaths, depending on whether the collaborations were informal, formal, or based on formal contracts without any prior history of working together.

The differences rest on how these various agreements impact firefighters' [intrinsic motivation](#)—what they are most motivated to do, which is to protect life over property—says Anita McGahan, a professor of strategic management the University of Toronto's Rotman School of Management. She co-authored the study with Jay Horwitz, a Rotman post-doctoral fellow.

"Fire departments will go to the mat for each other to save lives," says Prof. McGahan, who is also the George E. Connell Chair in Organizations & Society at the Rotman School. "It's when you want that extra [improvement](#) to [performance](#) associated with saving property that you need a written [contract](#)."

That doesn't mean that saving property in the other department's jurisdiction is ignored. Data on collaborations among nearly 3,000 U.S. fire departments between 1999 and 2010 showed 340 fewer casualties—a 1.7% cut—and a \$3.5 billion reduction in property damage—a 30% improvement—under informal agreements.

But property outcomes improved by 60% when departments with no history of collaboration went directly to formal cooperation contracts. Casualties, however, did not drop, suggesting the formal contract was superior for stimulating less intrinsically motivated performance, but not as good when it came to improving performance on a goal that firefighters were already motivated to achieve.



Anita McGahan is a professor of strategic management at the University of Toronto's Rotman School of Management and the George E. Connell Chair in Organizations and Society. Previously she served as the director of the Rotman PhD Program and as the Associate Dean of Research. She is cross-appointed to the Munk School of Global Affairs and the Physiology Department of the Medical School; is a Senior Associate at the Institute for Strategy and Competitiveness at Harvard University; and is Chief Economist at the Massachusetts General Hospital Division for Global Health and Human Rights. In 2013, she was elected by the Academy of Management's membership to the Board of Governors and into the Presidency rotation. In 2014, she joined the MacArthur Foundation Research Network on Opening Governance. Her credits include two books and over 100 articles, case studies, notes and other published material on competitive advantage, industry evolution, and financial performance. Her current research emphasizes entrepreneurship in the public interest and innovative collaboration between public and private organizations. She is also pursuing a long-standing interest in the inception of new industries,

particularly in global health. Credit: Rotman School

When departments adopted formal agreements following informal ones, they saw an additional 6% improvement in property loss over the initial 30%. But there was also a slight increase in casualties, again suggesting an impact on firefighters' inherent [motivation](#) to protect people.

The findings show that there are performance trade-offs when organizations choose to have formal policies that may conflict with employees' intrinsic motivations. Those policies can stimulate performance on organizational goals that employees are less intrinsically motivated to achieve. But, says Prof. McGahan, "you may also have a much more adverse and [negative impact](#) on your staff's motivation to meet other important goals than you initially anticipated."

The study appears in the March 2019 issue of *Strategic Management Journal*.

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