

## General Instructions:

Thank you for your participation in this experiment. All of the procedures used will be exactly as they are described in these instructions. The experiment should last approximately 40 minutes, and must be completed in one sitting. Before beginning, please remove any distractions that may affect your ability to complete the experiment. Others may be completing the experiment at a later time, so please do not discuss the experiment with anyone. During the experiment, you will not be able to go "back" to previous screens.

Each participant is guaranteed to receive at least \$2.00 as a participation fee. As explained below, you will have the opportunity to earn additional compensation (which will be between \$0.50 and approximately \$7.00) during the experiment. Your total earnings, including the \$2.00 participation fee, will be paid to you via your Amazon Mechanical Turk account. **As long as you complete all parts of the experiment, your work will be “approved” on Mechanical Turk, regardless of the decisions you make during the experiment.**

To protect your identity, we have randomly assigned you a participant number. This number will be used to collect information about what you do during the experiment, and will be used to pay you at the end of the experiment.

In this experiment, you will work on a task as a member of a group consisting of you and another participant in this experiment. You will not need to communicate with this individual during the experiment. Prior to completing your task, you will read a set of instructions that describe the task and your compensation for the task, and you will complete a brief quiz to check your understanding of the instructions. Following the task, you will complete a brief questionnaire. You will then be provided with a study code to enter into your HIT assignment in order to receive your compensation.

## Task Instructions & Compensation:

For the duration of this experiment, assume you are a division manager in a firm that manufactures a variety of products. In addition to your division, your firm has a second division that is the same size as yours and is managed by your other group member in this experiment.

During each of four 4-minute timed periods, you and the other division manager will be completing the same task in which you will decode strings of letters into numbers using an on-screen decoding key. A timer will also be provided so that you know how much time remains in the period as you work on this task. Your compensation for this task will be determined by your division's profitability in **one randomly selected period of the four you will complete**, and will be calculated as follows:

$$\begin{array}{r} \text{Net income generated by your decoding work} \\ - \text{Allocated common costs} \\ \hline = \text{Division Profit} \end{array}$$

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In any particular period, there is a 40% chance that an event will occur in your division that will cause production difficulties for that period only (and thus, there is a 60% chance that the event will **not** occur). The occurrence of this event will be determined by a random computer-generated draw, and you will find out if the event occurred at the beginning of the work period. A separate random draw will be made for the occurrence of this event in your firm's other division each period as well.

If this event occurs in a particular period in your division, the net income generated for your division by your decoding work will be calculated as:

$$60 + 4 \times \text{the number of strings you correctly decode in the period.}$$

For example, if you correctly decode 15 strings in a period in which the event occurs, the net income generated for your division would be  $(60 + 4 \times 15) = 120$ .

If the event **does not occur** in a particular period, the net income generated for your division by your decoding work will be calculated as:

$$60 + 9 \times \text{the number of strings you correctly decode in the period.}$$

For example, if you correctly decode 15 strings in a period in which the event does not occur, the net income generated for your division would be  $(60 + 9 \times 15) = 195$ .

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As noted above, your division's profitability each period is also affected by your firm's common support costs, which are allocated (or divided up) between divisions. **Your firm has decided to allocate these costs, which total 100 (m) each period, to each of the two divisions based on the portion of firm net income generated by the division for the period (rounded to the**

**nearest whole %**). For example, suppose your work generates net income of 60 in your division and the other division manager's work generates net income of 90 in their division. Total firm net income for the period would be  $(60 + 90 = ) 150$ , of which your division generated 40%  $(60 / 150)$ . Your division would be allocated 40% of the common costs of 100, or 40, while the other division would be allocated 60% of the common costs, or 60. Thus, the costs you are allocated depend on both the net income generated in your division and the net income generated in your group member's division.

After completing your decoding work in each period, you will learn your division's results for the period, as well as the other division's results. These results will illustrate each division's overall profit for the period. You and your other group member will repeat this process for four periods.

Your compensation for this task will then be determined based on your division's profit in **one randomly-selected period**. Your division's profit will be converted to dollars (\$) for this payment as follows:

$$\text{Compensation} = \text{Division profit} \times \$0.03$$

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For illustrative purposes, consider the following compensation examples:

1. In the randomly-selected compensation period, a participant correctly decodes 15 strings. No event occurs that causes production difficulties, so the participant's work generates net income of  $60 + 9 \times 15 = 195$ . The participant's other group member generates net income of 132 in the same period. Compensation is then determined in the following way:

$$\text{Total firm net income} = 195 + 132 = 327$$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	60% $(195 / 327)$	40% $(132 / 327)$
Division Profitability:		
Net income from decoding	195	132
- Allocated common costs	60 $(60\% \times 100)$	40 $(40\% \times 100)$
= Profit	135	82

The participant's compensation for this task would be (per the conversion above): \$4.05.  
The participant's other group member's compensation for this task would be: \$2.46.

2. In the randomly-selected compensation period, a participant correctly decodes 16 strings. No event occurs that causes production difficulties, so the participant's work generates net income of  $60 + 9 \times 16 = 204$ . The participant's other group member generates net

income of 204 in the same period. Compensation is then determined in the following way:

$$\text{Total firm net income} = 204 + 204 = 408$$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	50% (204 / 408)	50% (204 / 408)
Division Profitability:		
Net income from decoding	204	204
- Allocated common costs	50 (50% × 100)	50 (50% × 100)
= Profit	154	154

The participant's compensation for this task would be (per the schedule above): \$4.62.  
The participant's other group member's compensation for this task would be: \$4.62.

3. In the randomly-selected compensation period, a participant correctly decodes 15 strings. An event occurs that causes production difficulties, so the participant's work generates net income of  $60 + 4 \times 15 = 120$ . The participant's other group member generates net income of 222 in the same period. Compensation is then determined in the following way:

$$\text{Total firm net income} = 120 + 222 = 342$$

	Participant's division:	Other division:
Proportion of firm net income (The basis for allocating common costs)	35% (120 / 342)	65% (222 / 342)
Division Profitability:		
Net income from decoding	120	222
- Allocated common costs	35 (35% × 100)	65 (65% × 100)
= Profit	85	206

The participant's compensation for this task would be (per the schedule above): \$2.55.  
The participant's other group member's compensation for this task would be: \$4.71.

Your total compensation for the experiment will include the compensation from this task, as well as your \$2.00 participation fee.