

Endowment Effect: Behavioral Insights into Team Performance

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Abstract. The endowment effect, a core concept in the field of behavioral economics, is the tendency to place greater value on assets one possesses than on their exact counterparts that one does not own. While extensively recorded in laboratory markets, its influence extends to organizational life and business environments. This paper examines the impact of the endowment effect on team performance by analyzing its influences on idea ownership, resistance to change, and conflict regarding incentives and resources. Drawing on classic experiments and subsequent field evidence, the paper expounds on how the endowment effect impedes optimal resource allocation and creates obstacles to cooperation. Three organizational applications are discussed in detail: ownership of ideas within innovative teams, employee resistance to organizational transformation, and equity in incentive allocation. The findings highlight the widespread and systematic nature of the bias, along with outlining pragmatic remedies managers can adopt to manage inefficiencies. With the application of behavioral economics principles, firms can design incentive systems, communication styles, and joint processes that reduce ownership distortions and enhance better collaboration. Ultimately, the paper bridges the gap between experimental evidence and day-to-day management practices.

Keywords: endowment effect, behavioral economics principles, classic experiments

1. Introduction

The classical economic model is founded on the premise that people have stable and homogeneous preferences and will behave rationally to maximize utility. In this model, the initial distribution of property rights or provision of resources should be irrelevant if agents can bargain at zero transaction costs a formal statement of Coase Theorem [1]. Among the most significant anomalies is the endowment effect, whereby the perception of ownership adds value and therefore, people are unwilling to trade even when the trade would be beneficial to both [2]. While the endowment effect has long been demonstrated in lab experiments with mugs, tokens, or other objects, its relevance extends significantly beyond markets. Within organizations, individuals tend to "endow" themselves with tasks, ideas, or resources, establishing obstacles to good cooperation. Behavioral economics provides a useful framework for understanding how these biases shape teamwork communication patterns, innovation processes, and responses to change [3]. This study explores how the endowment effect can be transposed to team performance and strategies for its mitigation to enhance outcomes.

After a review of the theoretical basis of the bias, three organizational scenarios—idea ownership, resistance to change, and incentive allocation are addressed prior to offering managerial prescriptions for building more open and participative systems.

2. The endowment effect: definition, theory, and relevance

The endowment effect refers to the phenomenon where individuals assign higher value to assets they possess than to identical assets they do not own. In standard economic theory, such a valuation disparity should not exist. The Coase Theorem identifies that without transaction costs, resources will flow to their most highly valued users regardless of original allocation. In practice, though, ownership always changes preferences, creating reluctance to exchange and resulting in inefficient market outcomes. Classic laboratory experiments illustrate the effect. Kahneman conducted a series of experimental markets where students were randomly assigned to the role of either sellers or buyers of coffee mugs. The buyers' WTP was roughly half the sellers' WTA at the median. As a result, the number of expected trades was drastically lower than economic theory would suggest. Subsequent changes made sure that the ensuing asymmetry was not due to transaction costs, income effects, or deception, but due to the inherent psychological connection created by ownership.

Field experiments translated these findings into real markets. For instance, List tested market behavior in a collectible sporting event show [4]. Experienced traders, who traded frequently, exhibited a weaker endowment effect than occasional participants, suggesting that experience in markets may reduce but not completely eliminate the bias. This raised the issue of whether or not the endowment effect is an invariant property of human preferences or a context- and learning-dependent phenomenon.

The endowment effect is, by behavioral theory, a deviation from the assumptions of rational choice theory. The endowment effect explains why sellers demand more than buyers pay, as Kahneman notes [3]—this bias is equivalent to loss aversion, where giving up something one owns is perceived as loss and therefore worth more than the potential gain of the same magnitude. This disparity in perceiving gains and losses explains why the seller demands more than the buyer pays.

The applicability of the endowment effect goes beyond consumer markets; it also governs organizational life. In groups, employees are likely to assert ownership of ideas, projects, or resources. Mug owners will not abandon their mugs and so group members will not abandon their ideas and new systems. This causes underutilization of group knowledge, resistance to change, and conflicts over incentive allocation. As one scholar notes in their lectures, heuristics and biases come in handy when they are clearly defined, repeatable in contexts and give testable implications of both individual and aggregate outcomes. The endowment effect complies with these criteria and is therefore a useful instrument with which to examine workplace inefficiencies. Lastly, the significance of the endowment effect for team performance lies in its ability to explain predictable distortions that deviate from optimal cooperation. The bias may be applied to explain why "ownership of ideas" can suffocate innovation, why employees are reluctant to replace established systems, and why there are conflicts over allocating resources. With awareness of the bias, managers can design incentive systems, communication systems, and cooperating processes to counteract the biases.

3. Application 1 – ownership of ideas in teams

One of the most straightforward organizational manifestations of the endowment effect occurs in the context of idea ownership within teams. Just as individuals overvalue mugs or tokens in laboratory

experiments, employees overvalue ideas that they have generated. This fosters resistance to accepting others' suggestions or revising one's own contributions, even when doing so would enhance team outcomes. Overvaluation of one's own work creates inefficiency in teamwork and innovation processes. This has been referred to in management research as the "IKEA effect", the tendency for people to disproportionately overestimate the value of products, ideas, or projects that they have had some role in creating [5]. Similar to the endowment effect, the IKEA effect describes the psychological connection between labor input and subjective value. In group settings, this bias can lead to "turf wars" over whose ideas must be implemented, causing ineffective compromises or postponed decision-making.

The implications of the endowment effect for organizational design are notably significant. When multiple members are each endowed with their own idea, group discussion tends to degenerate into defensive grandstanding rather than constructive criticism. This phenomenon is analogous to the undertrading predicted by the Coase Theorem, where endowment effects distort individuals' willingness to trade. In theory, teams should converge on the best idea regardless of the proposer. In practice, attachment to personal ownership causes inertia and slows collective decision-making.

Case studies have illustrated this phenomenon in high-innovation sectors—such as technology and pharmaceuticals—where R&D collaboration is of critical importance. Studies of cross-functional innovation teams show that individuals cling to their "pet projects," even when superior data-supported alternatives exist [6]. This is reminiscent of Kahneman's argument about losses looming larger than gains: relinquishing one's own idea represents a personal loss, while adopting another's idea does not yield an equivalent gain.

Two distinct effects emerge from this dynamic. First, innovation is hindered as groups expend energy negotiating between rival claims of ownership. Second, promising ideas may be vetoed if they lack ownership by influential stakeholders within the group. From a managerial perspective, this suggests inefficient allocations of attention and resources, much like mug experiments showed inefficient allocations in laboratory markets. This issue can be addressed by reorganizing group communication architectures and incentive systems. To illustrate, the salience of personal ownership is decreased by collective credit of results instead of personal credit and by rotation of leadership. Feedback machines, such as the anonymous submission of proposals or red team-blue team reviews, may be formalized to depersonalize arguments and refocus attention on objective criteria. Other corporations even conduct idea funerals, in which groups of individuals ritually bury ideas with honor and those who contribute to it feel proud and move on.

4. Application 2 – resistance to change in organizations

Organizational resistance to change represents another key domain where the endowment effect manifests in the workplace. When corporations implement new technologies, processes or organizational architectures, ideally the employees should ideally accept the technologies that are proven to be superior. However, in reality, a company can face a deep-rooted resistance to change. Behavioral economics offers a compelling explanation: employees place high value on the systems, routines, and customs they already possess, and are therefore unwilling to replace them with new alternatives.

This resistance is asymmetrical as in conventional laboratory experiments. Kahneman, Knetsch, and Thaler demonstrated that sellers would demand approximately twice as much to surrender their mugs as they would be willing to pay to acquire them [2]. Equally, the workers tend to demand exorbitantly high justification or inducement to abandon the set practices. In the eyes of mainstream economic theory, this should not happen, resources and practices will be relocated to their most

highly valued use regardless of their original allocation. However, the endowment effect contradicts this prediction, as it attaches value to ownership based on current possession

It is accompanied by status quo bias, the tendency to maintain at default or status quo due to the cost of change in cognition and emotion [7]. Kahneman argued that the status quo bias and endowment effect are both instances of the same psychological phenomenon of loss aversion. Specifically, the psychological framing of forgoing something one already possesses (e.g., a mug or a work routine) defines it as a loss—one that carries greater psychological weight than the potential gain of adopting something new. In organizational settings, it leads to even good reforms such as the adoption of a better IT system, which is opposed because employees overvalue their existing processes.

Business case evidence illustrates the extent of this problem. Research on enterprise software adoption (including ERP systems) suggest that technical issues are often secondary to behavioral ones: users lack interest in adopting new tools and instead prefer to retain existing systems they have grown accustomed to [8]. This has been the situation in the health care institutions whereby adoption of electronic medical records has been met with the same challenge: physicians and staff perceive the new system as disruptive to their traditional paper-based workflows [9]. These are the practices that are consistent with the under-trading that is being experienced in the laboratory markets where people are holding on to the endowed commodities instead of trading them with what can be termed as the better commodities.

The conventional approaches to change management that rely on rational persuasion are ineffective, as they overlook the psychological attachment to the status quo that employees possess. Organizations can mitigate the endowment effect, however, by framing changes as extensions of current practices rather than as distinct alternatives. Pilot schemes, opt-out defaults, and phased roll-outs succeed because they reduce the feelings of loss associated with letting go of the familiar. Furthermore, employee participation in the new system design and roll-out increases psychological ownership of the overall change, effectively "re-endowing" employees with the new procedures [10].

5. Application 3 – incentives, equity, and team collaboration

Beyond idea ownership and resistance to change, the endowment effect also plays a significant role in shaping employees' perceptions of incentives and fairness in teamwork. In team settings, rewards, budgets, and even workloads are typically either individually or collectively "owned." Once endowed, employees tend to overvalue their allocations and resist redistribution, even as redistribution would enhance overall team efficiency. This is in line with laboratory experiment resistance to exchange where individuals needed to be offered more to give up goods imbued with than they would pay to receive them.

This bias is particularly problematic in team-based reward systems. The standard economic perspective holds that employees will respond to incentives solely based on expected returns. However, when individuals perceive rewards or benefits as entitlements, they place a value on their current allocation and resist change. For instance, a colleague who has long been granted a certain privilege (e.g., more project budget or higher bonus level) will think of it as a right and not something dependent on circumstance, so any diminishment will be felt as loss. Kahneman argues that losses are more psychologically salient than gains—and thus even balanced resource transfers may be perceived as unfair

Experiments involving public goods have confirming evidence for this claim. When individuals are provided with endowments prior to contributing to a group activity, their willingness to

contribute is largely determined by the size or nature of those endowments [11]. Those who believe that they should be given higher endowments contribute less and hence sabotage cooperation. Similarly, Fehr and Schmidt's model of inequality aversion identifies that cooperation begins with fairness: individuals resist outcomes that they perceive are against them, even at their own expense [12].

Examples of this dynamic are evident in cross-functional teams, where departments share resources for joint projects. Empirical research indicates that departments are reluctant to surrender resources that they are considered to own and this is translated to duplication or inefficiency [13]. This finding underscores the failure of the Coase Theorem in the presence of endowment effects: instead of reallocating resources to their most productive uses, teams cling to their existing resource allocations—resulting in resource underutilization and inefficiency

There are different strategies that managers can apply in order to address these issues. One, by positioning rewards as group rewards rather than as individual rights diminishes the salience of individual ownership. The group provides employee bonuses, such as those, which encourages workers perceive rewards as shared and thus lessen the opposition to redistribution. There are two more, transparent and participative methods of allocation that better justify changes and make it less likely to seem that something is being stolen [14]. Finally, cyclical access to resources or leadership roles prevents the entrenchment of privileges over time, fostering greater flexibility among workers and reducing their attachment to previous assignments

6. Conclusion

The endowment effect offers a compelling behavioral explanation for chronic inefficiencies in organizational and team performance. Rooted in loss aversion, it leads individuals to overvalue what they already possess—whether that ownership pertains to ideas, habits, or resources. By way of the three applications raised, teams' ownership of ideas, resistance to organizational change, and conflicts of incentives, the impact is revealed to persistently explain why cooperation does not equal rational efficiency as expected in typical models of economics. Instead of readily moving toward optimal outcomes, groups cling to their current endowments, which causes tension, conflict, and underutilization of group potential. For managers, the key insight is clear: high-performing teams require not only technical expertise but also an understanding of cognitive biases that distort decision-making. Organizations can reduce inefficiencies and foster more open, adaptive, and collaborative workplaces by the design of incentive systems, communication structures, and change processes that minimize the psychological costs of ownership.

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