

Seminar on Working Cultures, Competition & Incentives

“I have no friends and no enemies – only competitors.”

-Aristoteles Onassis

I. TOPIC DESCRIPTION

In many companies relative reward schemes are used whereby employees earn a bonus if they perform better than their colleagues. Moreover, hierarchical structures mean that in many organizations, employees find themselves in constant competition for promotions. This is meant to provide incentives for higher performance. However, competitive remuneration schemes could also have detrimental effects such that individual workers may view their colleagues as direct competitors generating more selfish and/or less helpful behavior in the workplace. Furthermore, age, gender and culture seem to have impacts on willingness to compete. For example, in western cultures, adult men sometimes enter competition even though their performance level is way too low for success, i.e., they harm themselves by over-competitiveness. In contrast, adult females sometimes compete less than they could do successfully.

Another challenge in contest design, e.g. in sports, is that when competition takes place among workers with mixed abilities it may lead to a discouragement effect, which establishes that lower ability individuals often reduce effort competing against an individual they do not feel up to (e.g. it has been found that average golf players performed significantly worse when competing against a superstar like Tiger Woods). One solution suggested by the economic literature is to level the playing field between advantaged and disadvantaged individuals by favoring weaker individuals through bid-caps, asymmetric tie-breaking rules, or advances. In sports, asymmetric tie-breaking is already common, for instance, in the

Champions League soccer playoffs “away goals” become the decisive factor in determining the winning team in case of a tie.

Contests are not only a well-established mechanism for incentivizing workers but also for encouraging innovation and advancing R&D. Elements of research and innovation contests can be found in the procurement of various goods and services. For instance, the construction of new buildings, proposals in a venture capital firm or TV shows for entertainment companies all flow through a similar innovation process that involves the solicitation of bids from multiple potential suppliers and the preparation of a pilot or a proposal. In other cases, e.g., in lobbying contests, it is often discussed whether investments are beneficial or not. Some authors have argued that investments into lobbying should be capped in order to soften competition among asymmetrically strong interest groups (e.g. the lobbying industry versus consumers’ interest groups). Of course, then the question arises whether such caps achieve the respective design goal or not.

In this seminar, we discuss questions like: How can we design workplaces and labor contracts to increase motivation and productivity? How can contests be used to foster innovation? Which role should social preferences play and how could they inspire specific contest designs? How should sport contests be engineered depending on the respective goals? How should we design lobbying contests?

Also related topics are very welcome!

II. SCOPE OF THE SEMINAR

Please note that no topics will be handed out. Instead, participants will develop their own research question in the broad field of Working Cultures, Competition and Incentives. Using their own creative abilities, students design an economic experimental or field study that answers their research question. Students will work in groups of two or three. If the process of group formation is unsuccessful, participants will be assigned.

The seminar starts with an introductory meeting on Wednesday, April 24 at 10:30 in building 30.28, room R220. Ideas for experiments or field studies will be presented in blocked events on June 12-14. Each presentation should last max. 20 minutes. Full attendance in all meetings is required for successful participation in the seminar. Seminar papers of 8 – 10 pages as well as two abstracts (one with 70-100 words, one with 120-150 words) are to be handed in by August 15.

Grades will be based on the quality of presentations in the seminar (40%), the seminar paper (40%) and the abstracts (20%). Students can improve their grades by 0.3 for good and constructive discussion contributions or by 0.7 for excellent and constructive discussion contributions. Application will be possible via the centralized platform until the 1st of April.

Please note that we will ask you for a brief description of the topic and research idea you are interested in, in order to ensure a well-balanced variety in the seminar. Prior attendance of the courses “Economics and Behavior” and/or “Auction and Mechanism Design” is recommended but not required. For further questions, please contact Patrick Maus (Patrick.Maus@kit.edu).



III. LITERATURE SUGGESTIONS

GENERAL INTRODUCTION:

- Charness, G., Kuhn, P. (2011) Lab labor: What can labor economists learn from the lab? Handbook of labor economics, 4, 229-330.
- Cassar, A., Friedman, D. (2004) Economics lab: an intensive course in experimental economics. Routledge.
- Croson, R., Gneezy, U. (2009). Gender differences in preferences. Journal of Economic literature, 47(2), 448-474.
- Dechenaux, Emmanuel, Dan Kovenock, and Roman M. Sheremeta. "A survey of experimental research on contests, all-pay auctions and tournaments." *Experimental Economics* 18.4 (2015): 609-669.

SOURCES OF INSPIRATION:

- Apicella, Coren L., Elif E. Demiral, and Johanna Mollerstrom. "No gender difference in willingness to compete when competing against self." *American Economic Review* 107.5 (2017): 136-40.
- Bartling, Björn, Ernst Fehr, and Klaus M. Schmidt. "Screening, competition, and job design: Economic origins of good jobs." *American Economic Review* 102.2 (2012): 834-64.
- Buser, T., Dreber, A., Mollerstrom, J. (2016) The impact of stress on tournament entry. *Experimental Economics*, 1-25.
- Buser, Thomas, and Anna Dreber. "The flipside of comparative payment schemes." *Management Science* 62.9 (2015): 2626-2638.
- Carpenter, Jeffrey, Peter Hans Matthews, and John Schirm. "Tournaments and office politics: Evidence from a real effort experiment." *American Economic Review* 100.1 (2010): 504-17.
- Charness, G., Gneezy, U. (2012) Strong evidence for gender differences in risk taking. *Journal of Economic Behavior & Organization*, 83(1), 50-58.
- Che, Yeon-Koo, and Ian Gale. "Optimal design of research contests." *American Economic Review* 93.3 (2003): 646-671.
- Che, Yeon-Koo, and Ian L. Gale. "Caps on political lobbying." *The American Economic Review* 88.3 (1998): 643-651.
- Dreber, A., von Essen, E., Ranehill, E. (2011) Outrunning the gender gap - Boys and girls compete equally. *Experimental Economics*, 14(4), 567-582.
- Fehr, Ernst, Alexander Klein, and Klaus M. Schmidt. "Fairness and contract design." *Econometrica* 75.1 (2007): 121-154.
- Gneezy, U., Leonard, K. L., List, J. A. (2009) Gender differences in competition: Evidence from a matrilineal and a patriarchal society. *Econometrica*, 77(5), 1637-16
- Gneezy, U., Niederle, M., Rustichini, A. (2003) Performance in competitive environments: Gender differences. *The Quarterly Journal of Economics*, 118(3), 1049-1074.
- Kosfeld, Michael, and Susanne Neckermann. "Getting more work for nothing? Symbolic awards and worker performance." *American Economic Journal: Microeconomics* 3.3 (2011): 86-99.
- Llorente-Saguer, Aniol, Roman M. Sheremeta, and Nora Szech. "Designing contests between heterogeneous contestants: An experimental study of tie-breaks and bid-caps in all-pay auctions." *KIT Working Paper Series* (2016).
- Niederle, M., Vesterlund, L. (2007) Do women shy away from competition? Do men compete too much? *The Quarterly Journal of Economics*, 122(3), 1067-1101.

- Szech, Nora. "Tie-breaks and bid-caps in all-pay auctions." *Games and Economic Behavior* 92 (2015): 138-149.
- Terwiesch, Christian, and Yi Xu. "Innovation contests, open innovation, and multiagent problem solving." *Management Science* 54.9 (2008): 1529-1543.