



Tournament outcomes and prosocial behaviour



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ABSTRACT

Does participation in a tournament influence prosocial behaviour in subsequent interactions? We designed an experiment to collect data on charitable donations made by participants out of their earnings from a real-effort tournament. We varied the earnings associated with ranks across our treatments thereby allowing us to observe donations by participants who end up at different ranks but have the same earnings. Prior to finding out how well they performed, participants were also asked to report their expected rank. Controlling for differences in effort and earnings, participants who were ranked first donated significantly more than others, supporting the view that positive affect from winning may increase generosity. However, we find that this effect diminishes when the difference between realised and expected ranks are controlled for, lending support to the idea that positive surprise from winning also increases generosity.

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1. Introduction

Tournament-like settings abound in real world human interactions wherein relatively better performance entitles one to a relatively larger prize (Deutsch, 1949; Hirshleifer, 1978). For example, Boyle (2001) notes that companies such as Ford, Microsoft, General Electric and Hewlett–Packard adopt a relative ranking system “in which all employees are ranked against one another and grades are distributed along some sort of bell curve.” Tournaments extend to other settings such as electoral competition (Snyder, 1989), patent races (Harris & Vickers, 1987), and sporting contests (Szymanski, 2003). Yet, despite the ubiquity of tournaments, non-competitive (cooperative) environments are also present in modern economies. Helping or giving to strangers, friends and relatives are not uncommon: many field and laboratory studies have shown that a large proportion of people are willing to give part of their money to help others (Andreoni, 2006).

It is not unreasonable to expect that participants in competitive incentive schemes may be less inclined to be cooperative to those participating in the same environment: this is broadly consistent with the view that competitive values and cooperative values are often in opposition to each other (Bowles, 1998; Gasiorowska, Zaleskiewicz, & Wygrab, 2012). For example, Erkal, Gangadharan, and Nikiforakis (2011) find that after participants in an experimental tournament compete, winners of the tournament (relative to participants of any other rank) are less likely to choose to redistribute their earnings to other

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tournament members. In a tournament setting where individuals have the option to sabotage the efforts of others, Harbring and Irlenbusch (2011) find that an increase in the wage spread between ranks increases sabotage even as it increases effort. Similarly, in an environment where individuals work as a team, the introduction of individual relative-performance incentives tends to reduce voluntary cooperation between team members (Irlenbusch & Ruchala, 2008). While these papers have emphasised how competition affects behaviour towards those *within* the competitive environment, it is possible that competition may change behaviour towards those *outside* the competitive environment.

While employers have an incentive to understand how the incentive structure of a firm influences behaviour within a firm, policy makers have an incentive to understand how it influences behaviour outside it as well. For example, does the adoption of more competitive schemes affect the willingness to support a redistributive system, the willingness to donate to charities or even the nature of voluntary exchange within families and friends? Research on the matter is scarce. Keck and Karelaia (2012) for example, state: “prior research on competitive reward structures has not paid attention to the indirect effects of competition on . . . third party relationships”.

Participation in tournament-like settings may have either a negative or positive impact on prosocial behaviour in interactions outside the tournament environment (Bowles, 1998; Sobel, 2009; Kvaløy, 2010). For instance, Henrich, Ensminger, McElreath, et al. (2010) find that offers in dictator and ultimatum games were positively correlated with the degree of marketisation of the economy. Like Seabright (2010), they suggest that marketization entails interaction with strangers and thus provides the environment in which reciprocal relations can flourish. In contrast, it has also been argued that the increased anonymity of such environments may lead people to emphasise *self* over *other* and thus erode prosocial behaviour (Hirsch, 1976). For example, Carpenter (2005) shows that exposure to multi-proposer ultimatum games reduced prosocial behaviour in subsequent dictator-game variations while Keck and Karelaia (2012) find that in trust games where trustees are paid based on their points relative to the points of other trustees, trustees send back lower proportions to trustors. This suggests that tournament incentives reduce the salience of non-financial considerations such as betrayal and inequality-aversion.

The present paper contributes to the literature on competition and third-party effects by focussing on a specific question: whether one's rank and expectations about rank in a rank-order tournament (Lazear & Rosen, 1981) influence subsequent donations to charities, controlling for differences in earnings and effort. We focus on giving to charities simply as one of several important third party relationships and due to its broad interpretation as a measure of helping or generous behaviour.¹ Charitable giving in the United States, for example, exceeded 2% of gross domestic product in 2010 (List, 2011). We focus on rank and expectations since the most characteristic features of the rank-order tournament are its reward by relative rather than absolute performance, and the uncertainty regarding the performance of others (Lazear & Rosen, 1981).

In our experiment, participants are randomly assigned to groups of four. They then engage in a real-effort task with the knowledge that their relative performance within their group will determine their relative rank and will entitle them to the earnings associated their rank. Participants are asked to report the rank they expect to achieve prior to finding out their actual rank. Finally, participants are given a chance to donate any amount out of their earnings from the tournament to one of three nominated charities. The treatment conditions involve varying the earnings associated with each rank such that we obtain data on donations made by individuals who have different ranks but the same earnings. This allows us to identify the effect of rank on charitable giving independent of earnings. This independence is important since in most tournaments, rank and earnings are perfectly correlated: higher ranking individuals may give more simply because they are richer and not because of some factor specific to the structure of the tournament.

We find that controlling for earnings and effort in the tournament winners donate more than participants who end up at any other rank. This effect is driven by the difference between expected and actual rank, as well as by being a winner in and of itself. We suggest that the former increases donations because winners are positively surprised while the latter increases donations because winning results in some form of intrinsic utility.

2. Theoretical framework

Loewenstein and Lerner (2003) highlight the importance of emotions² on decision making, noting that “even incidental affect – affect that is unrelated to the decision at hand – can have a significant impact on judgement and choice”. Tournaments have two prominent features: (1) participants are ranked according to relative performance; (2) participants are uncertain of how their efforts will translate into ranks since this depends on the performance of the other individuals participating in the tournament. We consider the ways in which these two features may influence subsequent generosity through the affective state of the individual.

¹ While the standard dictator game can be afforded a similar status, it has an added complication in a real effort setting. Because we are interested in third-party interactions, the recipient cannot come from the same tournament. In addition, as per Cherry et al (2002) and Oxoby and Spraggon (2008), to earn a right to any donation, the recipient has to participate in a some sort of real effort task, in which case the amount donated is largely determined by whom a dictator is matched with. A charity implementation allows the characteristics of the recipient to be held constant over potential donors. A charity implementation also increases the distance of the recipient from the experiment, emphasising the recipient's third party role.

² Following the bulk of the psychology literature we use the terms 'emotion' and 'affect' interchangeably.

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