



Tournament group identity and performance: The moderating effect of winner proportion



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ABSTRACT

Tournament incentives are common in organizations, and how characteristics of the tournament group (e.g., tournament group identity) and the tournament incentives (e.g., winner proportion) affect tournament performance are of both practical and theoretical importance. We conduct two experiments in which participants compete for tournament rewards against others in their group. In both experiments, we manipulate the strength of participants' identity with their fellow group members and whether the tournament has a small winner proportion with a single reward or a large winner proportion with multiple rewards. In Experiment 1, we find increasing tournament group identity leads to higher other-regarding preference. We also find other-regarding preference decreases competitiveness more in a large winner proportion tournament compared to a small winner proportion tournament. In Experiment 2, we find increasing tournament group identity decreases performance in a real-effort task under a large winner proportion tournament, but it has no effect on performance under a small winner proportion tournament. Together, the two experiments suggest that increasing tournament group identity increases other-regarding preference, and other-regarding preference has a larger negative impact on competitiveness and hence, tournament performance when the winner proportion is large than when it is small. Our results highlight for managers the importance of considering group identity when determining tournament winner proportions.

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1. Introduction

Organizations commonly use tournament incentive systems in which employees are rewarded based on their relative individual performance (Hazels & Sasse, 2008; Kwoh, 2012). Examining how tournament group identity affects performance is important because the strength of tournament group identity can vary widely in practice and can be influenced by organizational decisions. This

variation in tournament group identity can be the result of differences in organizational structures and opportunities that are either conscious attempts by the organization to build a strong group identity or unconscious organic developments.¹ For example, a group of competing employees may be in a smaller work group, share common characteristics (e.g., similar age, educational background), work closely together in the same office, and/or interact often; all of which tend to encourage stronger group identity. In contrast, a group of competing employees may be in a larger work group, have dissimilar characteristics, work in different offices or telecommute, and/or interact infrequently.

A key design choice regarding tournament incentive systems is the proportion of tournament participants to reward. Many companies such as Avis and Samsung choose to reward only their top employees (e.g., top 10%–20%) with a large tournament reward (Keenan, 1995; Samsung, 2013). Other companies such as AIG follow the advice of some compensation consultants to “share the wealth” by rewarding the majority (e.g., top 80%–90%) of their employees with smaller-sized tournament rewards (Demos, 2010; Kwoh, 2012).

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¹ Although it may seem counter intuitive, many companies that are known for fostering high group identity amongst employees utilize tournament incentive systems. For example, salesforce.com is ranked 8th on the Fortune's list of 2015's top 100 places to work because of its great workplace atmosphere and its focus on teamwork (Fortune, 2015). The company offers its top sales representatives tournament rewards such as travel and shopping incentives. Baird & Co. is another example that is ranked 5th on the list and it stresses the shared values employees have. Baird & Co. allows employees to thank one another with Blue Chip Awards for exceeding peer expectations on a project, and recognizes the top 2% of Blue Chip winners at its annual meeting.

It is important for management accountants who are involved in determining the winner proportion in tournaments to understand how this choice can influence the effect of tournament group identity on employee performance. Our study examines how the strength of identity with fellow tournament participants affects performance in a large winner proportion tournament versus a small winner proportion tournament, filling a gap in extant literature (see Dechenaux, Kovenock, and Roman (2012) and Sisak (2009) for reviews).

We posit that increasing the strength of tournament group identity increases tournament participants' other-regarding preference, which decreases their competitiveness and hence, tournament performance. Compared to a small winner proportion, a large winner proportion results in smaller valued rewards, which reduces the cost of acting on one's other-regarding preference by lowering effort so others could earn a reward. Therefore, we further posit that other-regarding preference decreases competitiveness and hence, performance more in a large winner proportion tournament than in a small winner proportion tournament.

We test our predictions with two experiments. We chose not to test our predictions with a single experiment to avoid influencing participants' performance by asking them about their other-regarding preference and competitiveness before they exert effort (Spencer, Zanna, & Fong, 2005). In both experiments, we manipulate winner proportion and tournament group identity on a between-groups basis. Winner proportion in a tournament is either small with a single larger reward or large with multiple smaller rewards, holding constant the total value of rewards between these two winner proportions. Tournament group identity is either at a moderate or strong level. In Experiment 1, tournament participants imagine competing against their fellow group members over eight sequential tournament rounds, and the dependent variables are participants' other-regarding preference and their competitiveness. In Experiment 2, tournament participants actually compete against their fellow group members over eight sequential tournament rounds, and the dependent variable is their individual performance in each tournament round.

The results of our two experiments are consistent with our predictions. In Experiment 1, we find increasing tournament group identity increases participants' other-regarding preference. We also find that other-regarding preference is negatively associated with competitiveness, and this effect is more negative under the large winner proportion tournament than under the small winner proportion tournament. In Experiment 2, we find increasing tournament group identity leads to lower performance under the large winner proportion tournament, but it does not significantly affect performance under the small winner proportion tournament. Further, this interactive effect of tournament group identity and winner proportion persists over the eight tournament rounds.

Our study contributes to management accounting research examining tournament incentives systems (e.g. Berger, Klassen, Libby, & Webb, 2013; Casas-Arce & Martinez-Jerez, 2009; Choi, Newman, & Tafkov, 2016; Matsumura & Shin, 2006; Newman & Tafkov, 2014), as well as management accounting research examining how the quality of the relationships among a group of workers affects performance (Chen, Williamson, & Zhou, 2012; Towry, 2003). Prior research that has examined the performance effects of tournaments with different winner proportions notes that many tournaments in practice are embedded in social environments where competitors know each other and know the outcomes of the competition, and that it is important for future research to consider how social environments affect tournament performance (Chen, Ham, & Lim, 2011; Lim, 2010). Our study examines one aspect of the social environments of tournaments, namely tournament group identity, in a setting where people know

the tournament outcomes of fellow competitors. We are the first study that we know of to examine how identity with fellow competing tournament participants interacts with winner proportions to affect the performance of tournament participants. Given that group identity varies across tournament groups in practice, our study furthers the understanding of performance consequences of tournaments with different winner proportions. Further, in contrast with some prior research that illustrates the positive effects of increasing group identity on cooperation and performance (e.g., De Cremer & Van Vugt, 1999; Ellemers, Gilder, & Haslam, 2004; Knippenberg, 2000; Towry, 2003; Wit & Wilke, 1992), our study illustrates a setting where increasing group identity decreases performance (i.e., when people are rewarded with a larger winner proportion tournament).

Our results may help organizations with the difficult decision of choosing an appropriate winner proportion for their tournament incentives (Welch, 2013). While there are arguments for using a larger winner proportion to motivate weaker performers, organizations should consider how different organizational-level or group-level factors such as the degree of job interdependencies, group size and demographics, and group culture affect tournament participants' identity with fellow tournament participants. Our results caution firms using larger winner proportion tournaments when there is stronger tournament group identity because the performance in a larger winner proportion tournament may be lower when tournament group identity is stronger, and thus, other-regarding preference is higher. In contrast, our results indicate that the performance in a smaller winner proportion tournament is less sensitive to variations in tournament group identity. So, firms that are concerned with employees deliberately lowering their tournament performance out of the concern for the earnings of others might consider increasing the financial cost of such lowering of performance by using a smaller winner proportion tournament. Thus, our study provides a plausible explanation for why organizations frequently use tournaments with small winner proportions despite prior research suggesting that a larger winner proportion motivates higher effort, particularly from less able tournament participants (Chen et al., 2011; Knauer, Sommer, & Wohrmann, 2016; Szymanski & Valletti, 2005).

The remainder of the paper is organized as follows. Section 2 develops our hypotheses. Section 3 describes our Experiment 1 design and results, and Section 4 describes our Experiment 2 design and results. Section 5 concludes with a discussion of our findings and the limitations of our study.

2. Research setting and hypotheses development

2.1. Research setting

We conduct two experiments using a research setting in which groups of four participants with heterogeneous abilities on an effort sensitive task compete for tournament rewards. We focus on such a setting since heterogeneity in employee abilities is common in organizations. In both experiments, we manipulate whether participants share strong versus moderate tournament group identity and whether the tournament winner proportion is small (only the top performer in a group wins a larger reward) versus large (top three performers in a group each win a smaller reward). The total value of the reward(s) under the two winner proportion conditions is held constant. Participants in Experiment 1 imagine a scenario in which they will compete against the other three members of their group in the task over eight sequential tournaments, whereas participants in Experiment 2 actually compete and hence receive rewards based on their performance and assigned winner proportion condition. Our dependent variables in

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