# Cooperate or Compete? The Impact of Vertical Wage Dispersion on Employees Behaviour in Tournaments

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## Cooperate or compete? How knowledge of wages influences employee behaviour

Information about the pay gap between employees at different ranks is much more readily available now than in the past, due to changes in technology and social attitudes. This increased transparency about “vertical wage dispersion” is believed to affect employee behaviour.

Previous accounting research, for example, has shown that high vertical wage dispersion – a big difference between pay at different levels -- can influence subordinates’ desire to reduce the gap, and lead to opportunistic behaviour in the workplace.

The researchers -- Lan Guo of the Lazaridis School of Business and Economics at Wilfrid Laurier University, Kun Huo of the Ivey Business School at Western University, and Theresa Libby of the Kenneth G. Dixon School of Accounting, University of Central Florida – set out to further explore how and why vertical wage dispersion between superiors and employees can affect employee behaviours.

In particular, they wanted to find out how it may increase or decrease collusion or competitiveness between subordinate colleagues.

## The experiment

The researchers recruited 93 university student volunteers across two experiments, to act as “subordinate” ranking employees in tournaments implemented by the “superiors” of their firm. Two experimental cases were designed: one in which fellow participants interacted repeatedly, and one where they only met for one tournament. The assigned tasks were computer-based. Participants communicated via chat rooms during a tournament, and the chat log was used to assess whether collaborative strategies were discussed.

## Results

In both experimental cases, subordinate-ranking participants had strong preferences for minimizing the vertical wage gap when dispersion was known to be high (i.e., there was a greater difference in their pay compared to superiors’ pay). The finding is consistent with previous research. The authors confirmed that high vertical wage dispersion has the potential to make competitive incentives like tournaments more or less effective on employee behaviour, depending on the amount of colleague interaction in the workplace.

Their data suggests that in work settings where employees interact more frequently with their coworkers, they are more likely to collude during tournaments. That’s because employees who interact a lot are believed to have established trust in each other. In high-wage-dispersion settings where employees interact less often, perhaps meeting infrequently to work on the odd project, competitive incentives are more effective because employees are then more likely to compete with each other. This, in turn, can increase individual performance. Either through collaborative attempts or on their own, the end goal of subordinates is to reduce the pay gap between themselves and their superiors.

## Implications

At organizations where employees are aware of high vertical wage gaps, and where competitive incentives are used to boost employee performance, managers may need to take steps to minimize collusion between subordinate coworkers who interact often. If existing intra-organizational cooperation is less important and/or less frequent, it may be to the organization's advantage to reduce the level of interaction if holding tournaments.

Alternatively, employers may need to simply consider how current company wage discrepancies could interact with competitive incentives, and adjust tournament designs accordingly. Since the purpose of competitive incentives like tournaments is to motivate employee effort while controlling the cost of such effort, collusion can be counterproductive. These practices are important to examine now, as pay transparency becomes more common within organizations and businesses.