

Why (some) of your colleagues and boss are paid more than you

You are probably paid less than your boss, but it may not be because of the work he is doing or to keep him motivated. Instead, it is meant to motivate you and other potential successors. Some call this the worst argument ever for over-paid managers – but economists call this tournament theory



Source: Shutterstock

Competition has ruled workplace payment and reward structures for a long time. In economics, this is called tournament theory – the idea of paying people based on their relative position in a company, rather than their absolute level of output. This reward of higher pay (usually) incentivises all workers to raise their game. While nice in theory, its practice has caught much criticism over the years.

The idea has been around since the late 1970s when [two economists](#) suggested that a workplace compensation scheme based on an individual's relative position in a firm was the best way of allocating pay, rather than for just being good at their job. One reason this happens is that it is difficult to calculate what earnings should really be, it's much easier to say Jack is better than Jill.

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However, there is a caveat. Employees who are lower down on the career ladder will only be motivated by “tournaments” if they see a realistic chance of winning. Within large companies, moving up the ladder, especially with substantial pay rises, will often be the exception rather than the rule.

Unwelcome features

Tournament-based pay can be a double-edged sword as the practice could be used to justify unfair payment structures and get in the way of teamwork as employees are judged on individual performance, potentially leading to a desire to outshine rather than aid co-workers.

That's not to say tournaments can't or shouldn't have a place in the modern workplace. A 2019 [report](#) covered the topic of gamification at work, where rewards were given more frequently based on, for instance, tasks completed or work well done, rather than a one-off bonus per year. Results showed employees were more engaged and productive in this environment. This type of “tournament” could shift reward schemes away from an employee's relative position and has room to include group rewards to stimulate collaboration.

More than just money

But [some research](#) suggests, the phenomenon was never properly tested and often used as a way to justify unfair salaries and compensation distribution.

Experts have also suggested that traditional tournament theory, aimed purely at monetary incentives may work well in the abstract, but has a number of weaknesses for running a company employee reward scheme in modern workplaces. While people might still strive for the status that comes with being rewarded, this isn't necessarily linked to monetary rewards. Experts point out that people value other rewards such as health insurance and a better work-life balance more than purely monetary rewards and these perks often turn out to be of lower cost than increasing salaries.

The competitive nature of tournament theory could conflict with the twenty-first century workplace, which is often built around teamwork.

Moreover, the competitive nature of tournament theory could conflict with the modern workplace, which is often built around teamwork and gravitates more and more towards collaborative performance and away from striving for individual excellence. This is contrary to tournament theory which evaluates individual performance.

This could mean that tournament theory's days are limited in its current form and that it may have to be adapted. The latter might seem more realistic, as competition is fairly deeply

embedded in human nature.

All in a game

One solution to rewarding collaboration and creating employee engagement could be gamification.

A 2019 [report](#) showed that employees enjoyed receiving rewards, but favoured unexpected rewards (35%). Thirty-eight percent said that working towards more salient rewards and bonuses would make work more fun. Annual bonus structures might often seem too far off to really care about throughout the year as people tend to discount benefits further in the future and value more immediate benefits more.

Gamification doesn't have to revolve around an individual's work, but opens the field to team rewards to increase collaboration

While gamification in this report is viewed more from the perspective of engaging employees and increasing productivity, it could also be the next step for tournament theory, moving it away from deciding on rewards based on someone's relative position and more towards their output. Additionally, gamification doesn't have to revolve around an individual's work but opens the field to team rewards to increase collaboration and helping co-workers to be successful alongside an individual's own success.

Revision of reward schemes like gamification could be an important step forward either through a departure from (certain principles of) tournament theory, an adaptation of it, or a mix of the two.

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