

Gilpatric, S. (2005). Competition and Cheating: Malfeasance in Tournaments. Working paper.

Abstract

In economic contests or tournaments where monitoring of the actions taken by contestants is imperfect competition is likely to drive not just work effort but other choices at the workers' discretion that increase the probability of winning. For example, when workers compete for promotion, bonuses, or other rewards tied to their relative performance ranking vis-à-vis colleagues they may have opportunities to engage in fraud or otherwise misrepresent their output, behaviors that the employer wishes to deter and are thus forms of cheating or malfeasance. In this paper we explore the incentive for players to cheat in competitions where cheating results in a discrete increase in a player's observed output, and the effectiveness of monitoring is measured by the probability of detection. Although we will frame our analysis in the context of a labor market tournament following Lazear and Rosen (1981), the results apply more broadly to contests of all sorts, ranging from athletic competitions to firms competing to win a contract. We show how the likelihood of cheating depends on the payoffs at stake in the tournament, the variance of output, probability of cheating being detected, number of contestants, and the penalty associated with being found to have cheated.

When monitoring is imperfect it is likely that workers' incentives will not be perfectly aligned with those of their employer because they will have opportunities to increase their probability of winning the tournament by engaging in activities which do not serve the interest of the firm. This type of malfeasance may take the form of an executive increasing profit from his division by illegally dumping waste, failing to adequately maintain equipment, or manipulating accounts to show larger current revenues at the expense of future revenues. All such activities may increase the executive's output as observed by his employer, while imposing large future liabilities on the firm.