

Risk-taking in tournaments: an experimental analysis

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Abstract This paper examines risk-taking in tournaments experimentally. More precisely, we investigate two potential drivers of risk-taking in tournaments. The first driver is the proportion of tournament winners, which is a design parameter and therefore endogenous for firms. We find that a lower proportion of winners encourages employees to take more risk. The second potential driver is exogenous. We investigate the reliance on simplified decision rules as a behavioral bias of employees working under tournament incentives. Tournaments require employees to use strategic optimization, which means considering the behavior of other contestants. Though much of the analytical literature builds on this assumption, we find that employees instead rely on simplified decision rules. If a particular strategy

Data are available from the corresponding author upon request.

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