Abstract

Uncompetitive contests for grades, promotions, and job assignments, which feature lax standards or consider only limited talent pools, are often criticized for being unmeritocratic. We show that, when contestants are strategic, lax standards and exclusivity can make selection more meritocratic. Strategic contestants take more risks in more competitive contests. Risk taking reduces the correlation between selection and ability. By reducing the noise engendered by strategic risk taking, dialing down competition can produce outcomes that better conform with the meritocratic ideal of selecting the best and only the best.

Introduction

Competitions to identify and select “the best and the brightest”—e.g., educational tests, worker performance evaluations, league-table rankings of mutual funds, are a pervasive feature of modern life. The design of selection contests is frequently shaped by the perspective that competition and high standards are fundamental features of meritocratic selection or even its defining characteristic (Frost, 2017).

However, this paper shows that, when contestants are strategic, making contests more competitive can make selection less meritocratic. Making contests more competitive, by increasing the number of competitors or raising selection standards, has not only the direct effect of adding contestants who might be better than the incumbent contestants or of excluding a marginal candidate unlikely to merit selection, but also an indirect equilibrium effect: making contests more competitive changes contestants’ equilibrium strategies.

We show that, when contests become too competitive, contestants choose riskier strategies that reduce the correlation between ability and contest performance, thereby making selection less meritocratic. When this occurs, meritocratic selection can often be furthered by anti-competitive policies such as low selection bars and restricted candidate fields. In fact, many seemingly unmeritocratic practices and proposals further meritocracy, such as the use of “Peter Principle” promotion policies in companies and organizations (Peter and Hull, 1969); the running of “in-house” competition instead of “open competition” for leader selection, and the advocate of using a relaxed selection policy which “approves” more applicants than can be admitted followed by a lottery process for elite-university admissions (Schwartz, 2007).

The Model

Consider a contest with $n \geq 2$ contestants; $m$ of them will be selected to fill a place, and the remaining $n - m$ contestants will be deselected and not receive a place, where $0 < m < n$. Both the selection quota, $m$, and contest size, $n$, are fixed before the contest and are common knowledge.

There are two possible types, $t$, of contestants: strong, $S$, and weak, $W$. Each contestant is strong with probability $\theta$ and weak with probability $1 - \theta$. A contestant’s type is the contestant’s private information.

Selection is based on performance in the contest. Every type-$t$ contestant can take risky activities in the contest that add noise to his otherwise fixed performance $\mu_t \in [S, W]$. Call $\mu_t$ a type-$t$ contestant’s contest ability and assume $\mu_S > \mu_W$. Assume that the additive noise has a zero mean and that all “fair gambles” are allowed, i.e., a contestant can costlessly choose any distribution of nonnegative performance subject to the contest ability constraint that the expected performance of a type-$t$ contestant must equal $\mu_t$. The fair-gambles framework has been adopted in many studies of contests (e.g., Robson, 1992; Myerson, 1993; Lizzieri, 1999).

Each contestant’s realized performance is independently drawn from his performance distribution. The $m$ contestants with the highest realized performances are selected, with ties broken randomly. Each contestant aims to maximize his probability of winning a place.

Key Implications and Robustness

When contestants are strategic risk takers, even meritocratic designers have an incentive to limit competition by adopting “clubby” contests, contests that feature less inclusive contestant pools and over-promotion of marginal candidates. These implications are robust to (a) endogenous contest ability acquired through costly effort, (b) ex post discretionary filling of the selection quota, (c) scoring caps that bound contestant performance, etc.

References


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