

How the Olympics Remind Us About Compensation

The Olympics
captivated the
attention of the world
this past summer.

And they offer us some interesting compensation lessons. I loved watching the summer Olympics. I was so impressed by the extraordinary talents of the athletes and by the displays of sportsmanship. But after a few minutes, the Olympics made me think about ...

compensation. The Olympics reminded me of a lot of important compensation lessons. For example, compensation is a lot more than wage and salary income (think of the glory, the feeling of satisfaction after the hard work), investments can pay off later (e.g., all the hard work that turns into a gold medal and then lucrative endorsements with financial payoffs), people value certain rewards differently (American swimmer Missy Franklin forgoing endorsements to keep her status as an amateur and look forward to college), that tournaments can be a way to measure performance and that relative rewards matter. In this column, I will focus on the relative rewards issue and the curious fact that almost coming in first may have unexpected costs.

Is Third Better Than Second?

At first blush it seems almost silly to think that third place can be better than second in any sort of athletic competition. At the same time, if you watch competitions where there is a podium to celebrate the gold, silver and bronze medalists, you may have noticed circumstances where the third place finisher seems a lot happier than the second place winner. Here is a case in point from NPR's Shankar Vedantam ("Would You Rather Win Silver or Bronze: (Be Careful What You Wish For)", NPR, Morning Edition, Aug. 3, 2012) who quoted two American Olympic swimmers. The first is Ryan Lochte after winning silver in the 4x100m freestyle: "It's not my normal



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specialty ... We went out there and raced tough — and just came up a little short.” On the other hand, Brendan Hansen won bronze in the 100m breaststroke and said “... I went for it. It worked out, you know, it’s just awesome that I get to go on the podium tonight. Honestly, I’m really proud of myself.”

So are people happier if they come in third? And does this just have something to do with expectations of how they thought they would perform? Yes and no. In an interesting paper, psychologists Victoria Husted Medvec,

Scott Madey and Thomas Gilovich studied happiness and achievement of athletes (“When Less is More: Counterfactual Thinking and Satisfaction Among Olympic Medalists,” *Journal of Personality and Social Psychology*, 69(4), 603-610). They found that yes, people are happier when they come in third, relative to second; and no, it isn’t explained by expectations.

The authors collected data from the 1992 Olympics and the 1994 Empire State (New York) Games. They examined video tapes of athletes immediately after their competitions and on the medal stands. One of the

main points of the work is that people tend to focus on a counterfactual or what might have happened in different circumstances. In a nutshell, the researchers find that silver medalists tend to compare themselves to gold medalists — essentially focusing on how they lost out to the person ahead of them, not surpassed the competitors behind them. On the other hand, bronze medalists tend to compare themselves to all of those in the competition who didn’t win a medal at all — so they won out relative to a whole field of competitors. The authors also find that the results are not explained by expectation of how well one would do in the competition. Olympic athletes’ expected performance, as predicted in advance of the games, was statistically factored out and the results still held. Economists and psychologists are continuing to advance the relative happiness research, which certainly has relevance for workplace total rewards.

The Baseball Hall of Fame and Health

Another clever and interesting paper that looks at relative happiness and athletic rewards is one on the Baseball Hall of Fame by David J. Becker, Kenneth Chay and Shailender

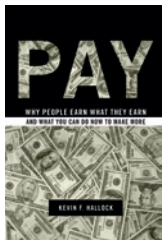
Swaminathan, “Mortality and the Baseball Hall of Fame: An Investigation into the Role of Status in Life Expectancy,” (iHEA 2006 6th World Congress: Explorations in Health working paper). These researchers study whether making it into the hall of fame is related to life expectancy.

Baseball players make it to the hall of fame in one of two ways. They are either voted in by the Baseball Writers Association of America (BBWAA), where they have to receive 75 percent of the votes to be inducted in, or they can be voted in by the veteran committee. The authors find that there is no difference in average life expectancy between those who make it into the hall of fame and those who do not. But, those who make it into the hall of fame live about 10 percent longer than those who narrowly missed induction by vote of the BBWAA. They find that “Life expectancy falls by 3 percent for each ballot with a vote share over 50 percent but below the 75 percent threshold required for induction.” (The ballot refers to each year’s vote.) So this means that for those who get more than 50 percent but less than 75 percent there is a cumulative effect that is obviously very bad for health. Almost making it is worse than not coming close.

Pay, Promotion and Relative Position

It goes without saying that the issues of relative reward, happiness and almost winning have implications outside of athletics and inside the workplace. The impact on team members of competing hard but coming in second can’t be ignored in sports, or in merit pay, or in succession planning and promotion. Anywhere people are motivated by reward, the “silver medal syndrome” is a risk to be considered.

I’ll end with a pay-out reward example of a different kind. My high school awarded a \$100 prize to the graduating senior who finished with the class rank of fourth (funded by a donor who graduated fourth himself). One of my friends finished our junior year ranked fifth. So, he worked really hard in our senior year hoping to make fourth and win the extra \$100. He ended up third. I hope he got over it. **WR**



Read Kevin Hallock’s new book “Pay: Why People Earn What They Earn and What You Can Do Now to Make More.” Available Sept. 30, 2012.



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