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Rank is What Matters

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This week one of my American friends was offered a new job by a famous university. He is a terrific economist. I doubt he will get the Nobel Prize, but he is in the next tranche of people down, and certainly ranks in the top-hundred economics professors in the world.

But he turned it down. Andrew, he said, when I looked into it, you know what the rascals had done: they had offered me a salary that was ten dollars a year less than their top-paid person. That bugged me, he said, because it was a stitch-up. I am better than their best current person, he told me, but they deliberately put me a few bucks a year below him -- because that old grouch is so touchy.

There is a lot of humanness in this story, isn't there?

The reason it sticks in my mind is that I am working on the links between job satisfaction and rank. When I say rank, I have in mind one's position in the pay hierarchy. So I mean: are you the 14th best-paid person in your whole company? Or are you 74th? Or perhaps 274th best-paid?

Our latest findings -- this draws on a team of economists and mathematical psychologists -- show that pure rank really matters to people. I was surprised by how strong the effect looks in the data.

How does one show this?

First, we ran experiments. We got students to tell us how satisfied they would be with different kinds of jobs after they graduated from Warwick. We presented the youngsters with different hypothetical companies and starting job packages, and we varied the pay bands. My psychologist colleagues told me that they expected the data to come out consistent with something called Range-Frequency theory (what do you mean you don't care what it is called). I was sceptical.

Range-Frequency theory is a psychological theory that was invented to explain how human beings judge physical things, like which is the heaviest weight from a collection of rocks, or which is the loudest tone from a selection of tones played down headphones.

But my psychology collaborators turned out to be right. What this theory says is that people in workplaces will have feelings of satisfaction or dissatisfaction that depend on a couple of factors. One is the pay gap between the very best-paid and worst-paid individuals. This is the so-called range of pay. It hurts everyone, according to this theory, when the person at the top gets a pay rise, because it extends the range of 'feasible' pay. Then, deep down, I have slipped back. The other force that determines workers' wellbeing is where they are in the rankings. It is not the pound notes that matter, in other words. It is how far I am up what you might call the pure league-table inside the firm.

The experiments showed this to be true.

Second, we went out and got survey information on a sample of about 2000 workplaces in Britain. Then we looked for patterns. Sure enough, Range-Frequency theory fit the facts very impressively. Satisfaction levels were predicted better by this new theory than those currently used by economists, which emphasise the average wage inside a company.

OK, so this is just the latest research. But I suspect that these findings will one day be used by real managers to design real pay systems. In the meantime, have thought where you rank in the pay hierarchy of your whole company? I must say I have.

Not high enough...