



## **Wage Dispersion and Firm Productivity: Do Tournaments Dominate Fairness and Sabotage Issues?**

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This article investigates the relationship between conditional wage dispersion and firm productivity (measured by the average value-added per hour worked) in the Belgian private sector, taking advantage of access to detailed longitudinal Linked Employer-Employee Data for the years 1999-2006. Controlling for potential endogeneity of wage dispersion, time invariant unobserved workplace characteristics, state dependence of productivity and many covariates by using successively OLS, fixed-effects and GMM, our findings reveal the existence of a positive and significant impact of wage dispersion on firm productivity, while a hump-shaped relationship does not seem to emerge. This result suggests that the incentive effect predicted by the “tournament” model dominates “fairness” and/or “sabotage” considerations.

**Keywords:** Wage Dispersion; Labour Productivity; Personnel Economics; Matched Employer-Employee Panel Data.

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