



The healthy fright of losing a good one for a bad one



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1. Introduction

Workers' health status is not perfectly observable by employers and it is not the only determinant of sickness absenteeism. The worker's choice to be absent from work also depends on factors other than her "true" health status, such as value for leisure, working conditions, co-workers and firm climate, job satisfaction or dissatisfaction, generosity of sickness benefits and Employment Protection Legislation. The latter, in particular, has been the focus of a number of papers: since workers covered by stricter Employment Protection Legislation are less exposed to the threat of losing their jobs, they have, *ceteris paribus*, a higher incentive to shirk and report as sick. While the role of employment protection on sickness absences is difficult to pin down in aggregate analysis (Bonato & Lusinyan, 2007), results on microdata are rather clear-cut and largely consistent across countries. Ichino and Riphahn (2004, 2005) compare the degree of absenteeism of a group of 858 young workers, newly hired by a large Italian bank, during and after their probation period; the authors find that in the three months after the first probationary quarter, the weekly days of absence rise by 0.04 for men and by 0.03 for women. Scoppa (2010a) relies on a representative large sample of Italian workers to show that, *ceteris paribus*, stronger protection raises absenteeism. More specifically, he finds that public employees, who are highly protected against firing, are more absent than private employees. Similarly, for Germany, Riphahn (2004) compares the behaviour of highly protected public employees with that of less protected private sector workers and finds that it is 35% more likely for the former to take sick leaves, which corresponds to about 3 more days of absence per year.

A number of studies exploit reforms in Employment Protection Legislation as quasi natural experiments that allow to better identify a causal effect of the degree of employment security on workers behaviour. More specifically, Lindbeck, Persson, and Palme (2006) and Olsson (2009) exploit a reform that softened job security of small firms (maximum 10 employees) in Sweden in 2001. Using a differences in differences (DiD) estimator they find that absences decline in the reformed firms by 13% in terms of sickness rate (Olsson, 2009) or by 0.3 days per year (Lindbeck et al., 2006). In addition, Lindbeck et al. show that this policy causes a sorting of workers, as those with a high absence record tend to leave reformed firms. After taking this source of endogeneity into account, the decline in absence rises to 0.4 days per year. Scoppa (2010b) also exploits a normative change that took place in Italy in 1990; this reform increased the firing costs of firms with less than 16 employees, by extending them the 'just cause' provision for dismissals. Using a DiD analysis, Scoppa shows that workers in small firms reacted by increasing sick leaves by 18%, with respect to employees in larger firms. On the specific role of job contracts, Arai and Thoursie (2005) use Swedish industry-region panel data in the decade 1989–1999 to test the significance of the share of temporary workers on the sick rate. Their most conservative estimate of the coefficient on the temporary share is -0.086 , which rises in absolute value to -0.28 when using a dynamic panel data model and instrumenting the share of temporary workers. On individual data, Scoppa (2010a) also finds that, other things equal, temporary workers have a 8 percentage point lower probability of taking a sick leave than permanent workers. On the contrary, for Switzerland, Engelland and Riphahn (2005) do not find statistically significant differences in the absence rates of permanent and temporary workers though the latter display a substantially higher probability of working unpaid overtime. Furthermore, temporary workers who are more likely to gain a permanent contract are also more likely to exert higher on the job effort. More recently,

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Bradley, Green, and Leeves (2014) exploit the longitudinal administrative personnel records of the Queensland State Government, available quarterly from 2001(1) to 2004(2) and show that, once controlled for unobservable heterogeneity, the difference in absences between permanent and temporary workers is statistically significant and amounts to about 2 hours per quarter. Moreover, they confirm that the absence behaviour of fixed-term workers is affected not only by the threat of dismissal, but also by the perceived opportunity of contractual advancement to open-end arrangements: increases in the likelihood of gaining a permanent job, proxied by temporary to permanent transition rates, is associated with a lower absence rate.¹

While most studies provide convincing evidence that the type of contract affects workers' behaviour and that the probability of transition to a permanent contract affects the temporary worker's absenteeism, none of the existing studies investigated the potential asymmetry of the change in effort due to a change in contract. In a standard intertemporal choice model, decision of going to work or staying home - and claiming sick leave - is based on the comparison between the benefit of leisure today and the expected cost of being caught shirking. Then, for given leisure and time preferences, the optimal absence rate will be a function of the contract type. More specifically, since firing costs are lower for temporary contracts compared to permanent ones, the probability to be fired when caught shirking is higher for the first than for the latter. Hence, switching from a permanent to a temporary contract will cause a reduction in absences in order to reduce the probability of being fired in case of shirking, while switching from a temporary to a permanent contract will induce an opposite and symmetric effect.

However, many psychological studies show that there are different neurological processes that govern learning from (and hence reactions to) good and bad news (see for example the review in Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001) and that in aversive states decision biases may emerge, usually mediated by the emotional system (Dolan et al., 2012). In their seminal experimental work, Kahneman and Tversky (1979) show that the distress felt by people when losing money is greater than the joy they feel when gaining the same sum. As a consequence, people put more weights on loss outcomes than on symmetric gain outcomes. This phenomenon, known as *loss aversion* (Lieberman, Idson, & Higgins, 2005; Tversky & Kahneman, 1992; Wilson & Gilbert, 2005), is also well documented in the financial literature, according to which investors often give more weight to potential losses than gains (e.g., Benartzi & Thaler, 1995; Kliger & Levit, 2009; Thaler, Tversky, Kahneman, & Schwartz, 1997; Veronesi, 1999; also Mayhew & Vitalis, 2014). Experimental evidence at the firm level confirms that negatively framed bonuses, in which employees at the beginning of the working week are provisionally given a bonus that can be retracted by the firm if the planned production goals are not reached at the end of the week, are more effective in terms of both individual and team productivity than traditional positively framed bonuses, in which a bonus is paid at the end of the working week if the planned production goals are met (Hossain & List, 2012).

Recent psychological studies have put forward alternative explanations on the effect of losses on cognitive performance. Yechiam and Hochman (2013a) propose a model in which losses increase the attention that people pay to the situation and the task they have to perform, without changing subjective weights of outcomes. Indeed, some studies find that both pupil diameter and heart rate increase more following losses compared to similar gains, suggesting that losses trigger physiological arousal (Hochman & Yechiam, 2011; Löw, Lang, Smith, & Bradley, 2008). Other than loss aversion and attention-related effects, in the specific context of gambles involving both losses and gains, a third explanation has been proposed by Slovic, Finucane, Peters, and MacGregor (2002), who show that individuals prefer a gamble in which a certain expected gain is associated with a small loss rather than with no loss at all. Hence, they conclude that losses introduce an "affective contrast" between outcomes associated to a choice alternative and this contrast seems to amplify the positive part of the gamble, thus making it more appealing. On the basis of empirical data from five experimental studies, Yechiam and Hochman (2013b) claim that loss aversion is not the only explanation of the relationship between losses and performance, since both attention and contrast-based models are coherent with the observed experimental results.

In contrast to experimental studies, in our analysis based on field data people are not always fully free to choose between different options (i.e., labour market transitions). Hence, it is very difficult to disentangle which psychological theory may better explain the observed behaviours. Nonetheless, if people tend to react more to losses than gains, either because they put more weights on losses compared to gains or because they pay more attention when losses occur, then we expect that workers losing job security should modify their working effort more than comparable workers gaining job security. Therefore, one should observe asymmetric effects of changes in job security on work effort and absences.² On the other hand, one should consider that the loss of a permanent job may be regarded as an exceptional and stigmatized event for the worker, whose health may then worsen significantly, thus increasing sickness days.

To the best of our knowledge, there is no direct evidence of asymmetric behaviour in the labour market with regard to workers' reactions following the gain/loss of employment protection. Given the state of the art on this issue, we present empirical evidence based on a large representative sample of Italian workers employed in the private sector drawn from administrative data. By exploiting the panel dimension of the data, we assess the difference in the magnitude of the discipline effect for workers moving from secure jobs - i.e. permanent contracts - to insecure jobs - i.e. fixed-term and temporary agency employment arrangements - with respect to workers moving from insecure to secure jobs.

¹ This evidence is consistent with standard models of intertemporal choice (Frederick, Loewenstein, & O'Donoghue, 2002).

² A piece of consistent evidence is provided by De Cuyper and De Witte (2009) on a samples of Belgian workers; the authors find that workers moving from a permanent to a temporary job express higher engagement and commitment than they previously did, though the limited number of cases prevents clear-cut conclusions from this specific dataset.

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