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Share capitalism and worker wellbeing☆,☆☆

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HIGHLIGHTS

- Group-based performance pay is positively associated with job satisfaction.
- The association is larger for bigger performance payments.
- The association is partly due to the greater organisational loyalty and feelings of fair pay engendered by such payment methods.
- Group-based performance pay mitigates the negative satisfaction effects of exposure to poor working conditions.
- Individual performance pay is not associated with job satisfaction.

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ABSTRACT

We show that worker wellbeing is determined not only by the amount of compensation workers receive but also by how compensation is determined. While previous theoretical and empirical work has often been preoccupied with individual performance-related pay, we find that the receipt of a range of group-performance schemes (profit shares, group bonuses and share ownership) is associated with higher job satisfaction. This holds conditional on wage levels, so that pay methods are associated with greater job satisfaction in addition to that coming from higher wages. We use a variety of methods to control for unobserved individual and job-specific characteristics. We suggest that half of the share-capitalism effect is accounted for by employees reciprocating for the "gift"; we also show that share capitalism helps dampen the negative wellbeing effects of what we typically think of as "bad" aspects of job quality.

1. Introduction

In the absence of detailed information on job attributes, measures of worker wellbeing, and in particular job satisfaction, have been proposed as a potential summary metric of overall job quality (Hamermesh, 2001). There are now a number of contributions that have addressed the validity of such subjective measures (see Clark et al., 2008; De Neve et al., 2013). In the cross-section, these have been shown to predict future objective outcomes, such as life-expectancy and health in general, marriage, divorce and fertility. In the specific context of the

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labour market, job satisfaction scores predict future job quits (Clark, 2001; Green, 2010) and retirement (Clark et al., 2015), and wellbeing has been linked to greater productivity at work (Oswald et al., 2015). None of these results would be found were subjective scores not to be comparable to at least a certain extent across individuals.

The use of these types of stated-preference measures has improved our understanding of how workers respond to changes in job characteristics and contractual arrangements. One empirical regularity is that wages, unsurprisingly, are positively correlated with job satisfaction. A more recent literature has sought to examine whether the way in which wages are determined, and in particular performance-pay schemes that explicitly link compensation to effort and output, also influence job satisfaction. As discussed below, this literature has largely focused on individual performance-pay schemes. However, group-based performance-pay schemes appear to be at least as common as individual-based performance pay in Europe and the United States (Bryson et al., 2013). This is the subject of the current paper, which provides a range of evidence that performance pay, and specifically group-payment schemes, has a robust positive impact on job satisfaction.

In standard theoretical models there is a clear connection between individual performance-based pay and worker wellbeing. The linking of pay to individual performance aims to compensate workers for the disutility of effort by setting marginal product and rewards equal. Performance pay hence allows workers to choose the effort and pay combination that maximises their utility (Lazear, 1995). In practice, this may not occur for a number of reasons. These include workers lacking the job autonomy to influence output, or the employer setting the effort–reward ratio to the disadvantage of the worker. In these cases, it has been suggested that performance pay may actually result in worse worker wellbeing outcomes, including lower morale, greater stress and anxiety, injury, and absenteeism (Bender et al., 2012; Frick et al., 2013).

The effect of group-based payment schemes on worker wellbeing has attracted less attention, despite these schemes being relatively common. The theoretical link between group-based performance pay and worker utility is less clear. For instance, the incentive-based channels discussed above are likely diluted due to the 1/n problem. It has been argued, however, that what can be described as 'Share Capitalist' modes of pay (broadly, in which worker pay depends on the firm's fortunes) potentially affect worker wellbeing through a variety of alternative channels.

Employees with a direct financial stake in the firm, for instance where pay is linked to firm profits, may feel more engaged in the decision-making process within the organization. And even when this ownership or profit-sharing stake is modest, the firm's promotion of such schemes may perform what Bowen and Ostroff (2004: 206) describe as "a symbolic or signalling function" to communicate a strong HRM system that is capable of aligning the interests of the organization and the worker. A second potential channel is that the provision of workers with an ownership stake in the firm may be viewed as a form of gift exchange. Along these lines, Bryson and Freeman (2014) argue that standard all-employee share-purchase plans are a 'gift' from the employer, since they offer discounted shares, often by giving workers free shares for every share they buy, up to a limit. This may increase worker wellbeing through the 'warm glow' created by this gift. This may be related to the value of the gift, but even small value payments may increase wellbeing as they have been shown to influence worker performance (Kosfeld and Neckermann, 2011). Additional, less direct, transmission channels also exist. For instance, it is possible that the high take-up of a share plan among co-workers positively affect non-members' wellbeing. Non-members may like having reciprocating types of co-workers, especially in the case of a positive production externality.

However, it is not guaranteed that group-based payment will increase job satisfaction. One key criticism of the effectiveness of group-based payment relates to free-riding. In practice, these problems may not manifest themselves due to increased co-worker peer pressure and co-monitoring (Kandel and Lazear, 1992), as has been shown in recent empirical work (Freeman et al., 2010). This is akin to the effects of what Barker (1993) termed the 'concertive control' exercised in teams. Whilst this may be good for the company, a culture of worker co-monitoring focused on encouraging greater worker effort has potentially detrimental effects on worker motivation and job satisfaction (Green and Heywood, 2010). In addition, group-based payment, in common with performance pay more generally, exposes workers to greater earnings risk, which may also be associated with lower wellbeing (Cornelissen et al., 2011).

Group-based payment may then influence worker wellbeing in a variety of ways, including a number that are distinct from the channels proposed for individual performance-related pay schemes. The main focus of the current paper is to provide estimates of the effect of group-based payment schemes on job satisfaction in three distinct data settings: a single-firm (ShareCo), European cross-sections (EWCS), and a British panel (the British Household Panel Survey: BHPS). These settings are complementary insofar as they allow us to disentangle the specific forms of group-based payment schemes from other performance-pay schemes, and to examine their effect on worker wellbeing in narrow within-job settings. Our approach is to use these three datasets to establish a credible body of evidence on: (1) the effect of performance-pay schemes on job satisfaction; (2) the way in which performance pay influences worker dissatisfaction with poor working conditions; and (3) the spillover effect of performance pay on non-recipients' job satisfaction.

Our main result is that group-based schemes are robustly positively correlated with job satisfaction in all three datasets, and across different specifications. By way of contrast, and as a matter of interest, this is not the case for individual performance-payment schemes. We go on to explore two possible channels for which our data is well-suited. First, we examine the potential role of worker reciprocity by focusing on organisational loyalty and perceptions of fairness, both of which may be influenced directly by performance-related pay. The loyalty channel may especially hold for pay methods such as profit-sharing and share receipt, where one purpose is to make workers 'part-owners' of the firm and so view it is a joint enterprise. Second, we ask whether workers in group-payment schemes report smaller falls in wellbeing when exposed to negative employment conditions. We posit that group-incentive schemes may dampen the negative impact of poor working conditions on employee wellbeing, via increased loyalty to the firm or a feeling of firm ownership in share-capitalist schemes.

The remainder of the paper is organised as follows. Section 2 presents the existing empirical evidence, and Section 3 describes our data and empirical approach. Section 4 presents the results and Section 5 then concludes.

2. Empirical evidence

Kruse et al. (2010: 262) review 12 contributions in the area, and conclude that the evidence on performance pay and worker wellbeing is at best mixed. We start by highlighting two papers that are most closely related to our work here.

Green and Heywood (2008) use the BHPS to provide panel data estimates (1998–2004) of the effect of performance pay on job satisfaction. Their focus is on individual performance pay, but they also provide estimates for profit-related pay/bonuses. They find the latter are associated with higher job satisfaction, in both cross-section and panel regressions. Our analysis of BHPS builds on their work by extending the period of analysis (1998–2008), conditioning on a broader array of work characteristics, and focusing on group-based performance pay. Reflecting their focus on individual performance pay, the estimation sample in Green and Heywood (2008) includes both private- and public-sector workers. While individual performance pay has become more common in the public sector, it is less clear how many typical forms of group payment would operate in this setting (e.g. the difficulty in defining a surplus/profit to be shared). We focus only on BHPS private-sector workers, where group-based payment is likely to be salient, and condition on worker-job fixed effects, whereas Green and Heywood (2008) confine their analysis to worker fixed effects. Also, we utilise a range of additional variables