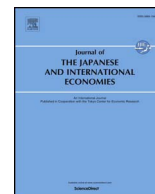




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Is being agreeable a key to success or failure in the labor market?☆

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ABSTRACT

The aim of this study is to elucidate how individual differences in noncognitive skills, as measured by the Big Five personality traits, explain variation in labor market outcomes. Japanese and U.S. survey data are analyzed to examine the associations between personality traits and annual income in the two countries. In particular, we focus on a country-specific, noncognitive determinant of annual income, which is found in *agreeableness* among male workers. *Agreeableness* contributes to higher annual income in male workers in Japan, but acts as a penalty for male workers in the U.S. This contrasting effect of *agreeableness* remains significant even when controlling for labor-related variables such as occupation, industry sector, employment type, and working hours. However, the wage penalty of *agreeableness* observed in the U.S. labor market is heterogeneous, differing by firm size. Negative effects are pronounced only in smaller companies; they disappear in large companies. In Japan, where higher *agreeableness* on average translates to higher income, the income premium is strengthened at large companies. This income premium of *agreeableness* does not necessarily result from career promotion, suggesting that *agreeableness* might act as part of a skill set directly improving job performance and productivity, rather than acting indirectly through occupational choice or career advancement.

1. Introduction

In economics, it is widely recognized, both in practice and in research, that measured cognitive ability is a strong predictor of educational outcomes and career success. However, comparatively, the role of noncognitive skills has received less attention in terms of explaining life outcomes. Heckman (1999) argues that serious bias can arise when accumulated human capital is evaluated without consideration of both cognitive skills, as measured by test scores or IQ, and noncognitive skills, such as motivation and social adaptability. Some evidence suggests that approximately 20–30% of individual earnings in standard earning equations can be explained by years of schooling and work experience in addition to demographic variables, including family socioeconomic status (Bowles et al., 2001). This implies that much of the variation in labor market success remains unexplained.

To attempt to explain this variation in labor market success, some recent studies have focused on noncognitive skills as a key predictor of earnings (Mueller and Plug, 2006; Carneiro et al., 2007; Heineck and Anger, 2010). Heckman and Rubinstein (2001) provide some notable

evidence for the importance of noncognitive skills in the labor market. They focus on those who hold a general educational diploma (GED) in the U.S. who have cognitive ability similar to high school graduates who do not go on to college, as measured by scores on the Armed Forces Qualification Test. Despite having similar cognitive ability, GED holders tend to earn less than do high school graduates. After controlling for measured ability, GED holders earn even less than do high school dropouts with the same amount of schooling. The authors explain that a lack of noncognitive skills such as discipline, patience, and motivation accounts for the lower earnings seen among GED holders compared with the other two groups, even when controlling for measured cognitive ability. Carneiro and Heckman (2003) also emphasize a significant role of noncognitive skills in explaining the differences in socioeconomic success. Using German data, Almlund et al. (2011) explain that the trait of being conscientious, which has long been considered the best predictor of later-life labor outcomes, has more explanatory power than intelligence. These studies suggest that noncognitive skills explain variation in labor market outcomes that is not explained by cognitive skills.

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We therefore aim to investigate the extent to which noncognitive skills explain variations in labor market outcomes. As a measure of noncognitive skills, the Five Factor Model (hereinafter, the “Big Five personality traits”) is a broadly accepted model of personality in the psychology and economics literature. For a brief measure of the Big Five personality traits, many recent studies have utilized a 5- or 10-item inventory measured on bipolar scales for the following five personality facets: *extroversion*, *agreeableness*, *conscientiousness*, *emotional stability*, and *openness to experiences*. Gosling et al. (2003) examine these inventories in terms of (a) their validity, using self-, observer, and peer ratings; (b) patterns of external correlates, using self-ratings on other measures; and (c) test–retest reliability, using a second assessment of the same participants. They conclude that 5- and 10-item inventories are reasonable proxies for lengthier Big Five instruments.

Our first motivation for utilizing the Big Five personality traits is that a single measure cannot predict much of the variance in labor market outcomes. Most of the remaining variance is not explained by measurement error, so substantial room remains for other determinants of success. This study considers that soft skills can explain the variance in outcomes that are not attributable to the effects of cognitive skills. We first investigate the extent to which noncognitive skills, as measured by the Big Five personality traits, explain variations in labor market outcomes when controlling for various labor-related variables, and then compare the results with those reported in the literature. Our second motivation is that among the personality traits, *agreeableness*, which has not been considered a significant predictor of career success in the related literature (Heineck and Anger, 2010; Mueller and Plug, 2006; Nyhus and Pons, 2005), can be rewarded in the labor market, particularly in Japan. We hypothesize that the effect of *agreeableness* would differ between Japan and the U.S. Hofstede (1980) finds that Japan and the U.S. have very different tendencies, in that the U.S. is the single most individualistic country of the entire set, whereas Japan is characterized by “collectivism.” In his empirical summaries, while wealthier countries tend to be individualistic, Japan is depicted as a borderline exception for the tendency of collectivism. We predict that this collectivism would be observed in the effect of *agreeableness* on career success in Japan. By contrast, rewards may not be observed in a very individualistic country such as the U.S., or *agreeableness* may even act as a significant penalty in the labor market. In this regard, our main purpose is to determine the predictive power of *agreeableness* and to explain how *agreeableness* is correlated to labor market outcomes by considering country differences.

In a study of how personality traits act as predictors of later-life outcomes, the stability of personality traits remains a matter of controversy. Although some studies have noted changes in personality traits over an individual's life course with changes in environment or gene expression (Roberts and Jackson, 2008), it is widely accepted that personality traits tend to be stable in adulthood. In a review of the stability of personality traits and their predictive power, Almlund et al. (2011) note that personality development tends to stabilize around the age of 30 years (Caspi, 1997; Soldz and Vaillant, 1999). Cobb-Clark and Schurer (2012) conclude that personality traits in working-age adults are stable over a 4-year period, based on their findings of small changes in average personality during given periods and little relation between intra-individual personality characteristics and life events (e.g., adverse employment, health, or family events).

We examine the relationship between personality traits and labor market outcomes with the assumption that personality traits would be stable after a certain working age. Our main finding is that being agreeable is highly rewarding among male workers in Japan, as *agreeableness* increases the annual income of male workers, even when the type of occupation, industry, employment type, years of experience, working hours, and company size are held equal. By contrast, *agreeableness* may act as a penalty for male workers in the U.S. However, a wage penalty is unlikely to be observed in large companies, for whom the negative effect is offset to near zero. In Japan, the positive effect of

agreeableness is strengthened in large firms. Thus, in both countries, agreeable male workers in large companies may be evaluated more highly than are those in small and medium-sized companies. We consider that *agreeableness* might be indirectly rewarded in terms of annual income through type of occupation, industry, employment, working hours, and/or promotions. For instance, higher-income occupations and industries might require the trait of being agreeable. In addition, agreeable workers may be more willing to work longer hours for others, which translates into higher income. Furthermore, agreeable workers may be more likely to receive promotions and earn higher wages. However, even after holding these labor-related variables such as type of occupation, industry, and working hours constant, we find that the positive effect of *agreeableness* on annual income remain statistically significant. Moreover, in both countries, when the aforementioned labor-related variables are held constant, a significant determinant for promotions is *extroversion*, but not *agreeableness*. These results suggest that *agreeableness* directly increases an individual's productivity, particularly in a team environment, which leads to a higher annual income, rather than indirectly through occupational choices, working hours, or promotions.

These results are obtained based on the assumption that personality traits would be stable after a certain working age. However, it should be noted that a recent study (Anger et al., 2017) note that personality traits can change after involuntary job loss. They find that *openness to experiences* increases for average displaced workers who are highly educated and experience direct job-to-job transitions, even after working age. This result emphasizes the possibility of reverse causality between personality traits and labor market outcomes. Our prediction of a positive effect of *extroversion* on career promotion, for example, can also be explained in a reverse way in which after being promoted to a managerial position, workers could develop interpersonal skills that allow them to be successful at their jobs, which in turn could increase the degree of *extroversion*. This suggests that caution is needed before concluding that the results presented here regarding annual income and promotion reflect a direct causal relation. Thus, it should be emphasized that this paper focuses on how personality traits are correlated with labor market outcomes rather than on an investigation of direct causality. Moreover, we remain cautious of unobserved heterogeneity. To check potential endogeneity problems, we assessed by a robustness check the potential bias of unobserved factors on the results, using the method proposed by Oster (2016). This method exploits the notion that the bias from observed factors provides information about the unobserved bias under the assumption of proportionality between biases. Our robustness check based on the method of Oster (2016) suggests that these findings are not significantly affected by omitted variables bias.

This study differs from prior research in the field in two ways. First, country differences are difficult to examine because previous studies use different measures of personality traits and other confounding variables. Previous studies using data collected in different countries have yielded different results, possibly because the authors control for different covariates, or because some significant country differences exist. We utilize survey data from Japan and the U.S., which we collate using the same questions during the same year. This survey includes a wide range of questions that have been considered important factors for career success in the related literature. Therefore, we could run multiple regressions while controlling for a variety of identical variables that might affect labor market outcomes. Second, we focus on a specific noncognitive determinant of labor market outcomes, *agreeableness*, which has not been found to be significantly associated with labor market outcomes in a wide range of related literature. This particular trait is related to Japan and the U.S. in a very contrasting way. To determine the channels through which *agreeableness* affects labor market outcomes, we investigate the predictive power of this personality trait on annual income in consideration of differences in firm size and career advancement. We also consider whether personality traits directly affect income by improving an individual's job performance

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