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Worker well-being and perceived fairness: Survey-based findings from Italy

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Abstract

Based on a survey of 1958 employees in 228 Italian social service organizations under public and private ownership, this paper shows that worker well-being is crucially influenced by fairness concerns. The positive effect is strongest for procedural fairness, which is interpreted as a crucial emerging property of the organizational setting. The influence of the disutility of effort and of the wage is much weaker, but still coherent with economic theory. Public organizations are found to be at a disadvantage with respect to the private sector regarding both the degree of satisfaction and perceived fairness. Non-profits record the highest scores, mainly as regards procedural fairness.

JEL classification: J32; L30; M54

Keywords: Job satisfaction; Loyalty; Perceived fairness; Procedural fairness; Ownership form

1. Introduction

Theoretical work and laboratory experiments on the economic role of fair behavior have grown considerably in recent decades, and crucial advances have been achieved.[1] However, empirical tests within different organizational settings have been rare, and they have been restricted to relative status deprivation and group cohesiveness in for-profit firms (FPFs hereafter). The empirical analysis of fairness is restricted to wage dispersion, compensating wage differentials, and comparison wage rates. The data concerning the non-monetary components of fairness are partial and limited to single items and proxies, and this makes it difficult to investigate the relation between fairness and on-the-job well-being. A more comprehensive approach is proposed in this paper, using one dataset that concerns the Italian social service sector. Direct measures of different aspects of distributive and procedural fairness are taken into

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[1] At the theoretical level, three streams of inquiry can be singled out. A first stream tries to explain fairness starting from purely self-seeking behavior. In this fashion, Binmore (2005) explains fair behavior as a process of equilibrium emergence and selection in repeated games. The second stream starts from the observation that fair behavior is based on reciprocity, which is defined as the tendency of an individual to be kind when s/he is treated kindly, and to be unkind when s/he is treated unkindly (Rabin, 1993). The third stream, which is close to the behaviorist one, agrees with the second that individual behavior cannot be understood solely on the basis of self-seeking preferences (Ben-Ner and Putterman, 1999; Bowles, 2004; Gintis, 2005; Seabright, 2006), but goes beyond fairness as reciprocity because it explicitly works on intrinsic motivations and distinguishes them from extrinsic ones (Deci, 1975; Deci and Ryan, 1985).

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consideration, investigating their relation with worker well-being, which is represented by job satisfaction and loyalty to the organization. The influence of fairness on worker well-being is assessed together with the wage and effort, while supplementary information concerns socio-demographic and organizational aspects. Besides the empirical test of the relevance of fair behavior for worker well-being, a second research objective will be pursued at the comparative level, given the presence of different ownership forms in the sector considered, which is mainly populated by non-profit organizations (NPOs hereafter). NPOs are a privileged setting in which to test the relevance of fairness, since non-selfish motives are expected to be important (Hansmann, 1981; Preston, 1989; Frank, 1996; Rose-Ackerman, 1996; but see Ortmann, 1996); and accordingly, several empirical studies on fairness have involved such motives. Second, NPOs are often found to pay lower salaries, and fairness may be a crucial ingredient of the incentive mix used to motivate workers (Mirvis, 1992; Borzaga and Tortia, 2006).[2] Third, while the other ownership forms will be mainly used as yardsticks for comparisons, the comparative analysis is pertinent because workers with different preferences and motivational drives may self-select in different kinds of organizations. Hence, the weight of perceived fairness should be evaluated against the weight of motivations.

The paper reaches two main conclusions:

(1) First, fairness concerns emerge as the factor that exerts the main influence on worker well-being. In the econometric analysis set forth in Section 5, the size of the impact of fairness is preponderant with respect to any other covariate, and the only one evident in all specifications of the models. On the other hand, the influence of the disutility of effort and of the wage is aligned with the traditional models of worker utility, but appears to have a much smaller impact.
(2) Second, the ownership form matters, but its influence appears to be far less important than that of fairness. Descriptively, different forms exhibit markedly different degrees of satisfaction and fairness perceptions. However, in the econometric analysis, these differences are downplayed when the influence of procedural fairness is considered. It consequently seems that the ownership form is only instrumental[3] in supporting a higher degree of fairness, which is the true determinant of well-being.

The paper is organized as follows. After the introduction, Section 2 briefly surveys the literature on fairness in organizational settings, and introduces the theoretical scheme underpinning the study; Section 3 presents the descriptive part of the empirical work; Section 4 discusses the measures of procedural and distributive fairness used in the econometric analysis in Section 5, where the influence of fairness and other endogenous and control variables on job satisfaction and loyalty is assessed. Section 6 concludes.

2. Fairness in organizational settings: the record to date

Assessment of the role of fairness in organizations first arose in connection with the study of distributive processes, mainly pay structures, relative wages, and reference wages. Starting from the main contributions, within the orthodox economic approach Milgrom and Roberts (1990) attempted to identify the advantages of decision processes that permit rent-seeking within organizations, and to incorporate these into a cost-benefit analysis of optimal decision processes. They argued that equity criteria are sought in order to generate efficiency by constraining rent-seeking and substituting for less “open” (i.e. more hierarchical) processes. Equity should never be of such a magnitude that it stunts incentives to pursue organizational objectives. On the other hand, it may in many cases allow the accomplishment of the first best solution by limiting resistance to change and allowing the implementation of new proposals that do not damage the other interested parties. Akerlof (1984), and Akerlof and Yellen (1990) moved away from the orthodox stream. Starting from a critique of the more traditional view of efficiency wages (Shapiro and Stiglitz, 1984), they highlighted the role of gift exchange and reciprocity between employers and employees, and of fair

[2] A major methodological question in this context is how worker utility and fairness concerns can be measured empirically. While the traditional economic view is that utility must be ordinal and inferred from observed behavior, not measured directly, satisfaction measures are increasingly accepted as suitable proxies for utility by the happiness literature (Oswald, 1997; Frey and Stutzer, 2002; Binswanger, 2006), since they are reported to overlap robustly with more traditional, objective measures of well-being (Lelkes, 2006). On the other hand, this is the first comparative study that, to my knowledge, uses subjective measures of fairness.

[3] Institutions, hence ownership forms, are interpreted as social technologies as defined by Nelson and Sampat (2001).