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Fairness pays off

When companies arbitrarily cut their wages, the motivation and productivity of the employees decrease – this is clear. Less obvious, however: employees also become less productive even if it is their colleagues who are treated unfairly and not them. This was confirmed by a research group led by Sabrina Jeworrek at the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association.

What happens to one's own productivity when a colleague experiences unfairness? As of yet, this indirect influence in the workplace has been the subject of very little study. Unfair behaviour by an employer makes employees less productive – even if those employees are not directly affected. This was demonstrated by IWH economist Sabrina Jeworrek and co-authors Matthias Heinz, Vanessa Mertins, Heiner Schumacher and Matthias Sutter in a behavioural economic experiment. The experiment simulated an unfair employer-employee situation: 195 subjects were hired for two work shifts in a call centre to carry out a nation-wide survey in Germany. The employees received 40 Euros per shift, paid at the beginning of both 3.5-hour shifts. Employees were randomly assigned to one of three groups during their assignment at the call centre to measure the indirect effect of unfair behaviour. In the first group, staff numbers remained unchanged in the second shift. In a second group, the staff were reduced by 20%, but the remaining employees were not informed that these were terminations. Rather, they were told that there would simply be fewer staff for the second shift. In the third group, the staff were also reduced by 20%, but the remaining employees were informed that the reductions were the result of terminations. "We also told the people in the third group that we fired their colleagues so we can cut costs, and that the selection of people was completely arbitrary. We wanted the situation to be as unfair as possible," says economist Jeworrek.

Three possible scenarios were conceivable at the time: "Either the subjects are happy that they are not affected and just continue as normal. Or they even do a particularly good job as a way of expressing their gratitude. However, it is also conceivable that they perceive the behaviours of the employer as unjust, even though they themselves are not affected, and reduce their work performance as a result," Jeworrek noted. The latter was the case: in the third group, the workforce became significantly less productive and the average number of calls dropped by 12% as the subjects took longer breaks and left work earlier. However, the fact that the second peer group also employed 20% fewer workers did not appear to affect productivity.

A few weeks later, the economists explained the experiment to the workers and questioned those who were not fired about their job satisfaction: in all groups, the participants were satisfied with the pay, atmosphere and management's behaviour towards them. The third group, however, graded behaviour towards colleagues as much worse than the comparison groups. When asked what they considered to be particularly

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Press contact
Stefanie Mueller
Tel +49 345 7753 720
presse@iwh-halle.de

Scientific contact
Sabrina Jeworrek
Tel +49 345 7753 730
sjk@iwh-halle.de

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Halle Institute for Economic
Research (IWH) – Member of the
Leibniz Association
Tel +49 345 7753 60
Fax +49 345 7753 820

Kleine Maerkerstrasse 8
D-06108 Halle (Saale)
Germany

P.O. Box 11 03 61
D-06017 Halle (Saale)
Germany

www.iwh-halle.de

antisocial, they mentioned above all the arbitrary selection of the dismissed individuals and the dismissals per se.

Most recently, the research group interviewed experienced HR managers. They were asked to assess how they thought the productivity of the subjects had developed during the course of the experiment. Although the experts gauged the result very well on average, individually they were often wrong. About 60% overestimated the negative effect on work performance, but the remaining respondents underestimated the effect or even suggested an increase in productivity.

“We suspect that the cost of unfair behaviour for employers is significantly higher than originally thought,” says Jeworrek. “Austerity measures can completely miss their target if employees become unproductive due to the dismissals of their colleagues.” That means: not only do employees appreciate fair treatment, it also pays off from an economic point of view.

Publication

Heinz, Matthias; Jeworrek, Sabrina; Mertins, Vanessa; Schumacher, Heiner; Sutter, Matthias: Indirect Effects of Unfair Employer Behaviour on Workplace Performance, in: [VOX CEPR's Policy Portal](#), 2017.

Scientific contact

Professor Sabrina Jeworrek
Tel +49 345 7753 730
Sabrina.Jeworrek@iwh-halle.de

Press contact

Stefanie Mueller
Tel +49 345 7753 720
presse@iwh-halle.de

 IWH on [Twitter](#)
 IWH on [Facebook](#)

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