

Fairness and motivation

Fair treatment creates incentives, and is beneficial for workers and the firm

Keywords: fairness, wages, effort, reciprocity, backfiring incentives

ELEVATOR PITCH

How do firms motivate their employees to be productive? The conventional wisdom is that workers respond to monetary incentives—“Pay them more and they will work harder.” However, a large and growing body of empirical evidence from laboratory and field experiments, surveys, and observational data, as well as neuroeconomic research, suggests that workers’ perceptions of fairness and trust are also key drivers of their work effort. Treating employees with respect is not only ethically warranted, it can create positive economic outcomes for both the worker and the firm.

KEY FINDINGS

Pros

- + Kind and fair treatment can help employers to motivate their workers.
- + Offering sufficiently high wages may elicit effort levels above the contractually enforceable minimum.
- + Unfairness is punished, even if punishing is costly.
- + “Trust pays,” since many workers are intrinsically trustworthy and react negatively to controlling work environments.
- + Controlling devices in the workplace and particular forms of explicit performance incentives may entail “hidden costs.”

Cons

- Employment contracts are typically incomplete and cannot fully resolve the conflicting interests of workers and firms.
- Monetary incentives are less effective when offers are perceived as unfair.
- Treating agents in an unfair or unkind manner can evoke counterproductive activities such as shirking or sabotage.
- Unfair payment can lead to physiological stress and adverse health consequences.
- Controlling may give rise to a self-fulfilling prophecy of distrust between workers and firms.

AUTHOR’S MAIN MESSAGE

Firms have traditionally tried to motivate workers by setting explicit pay-for-performance incentives. However, new research has indicated that workers are motivated not just by wages per se, but also by their perceptions of how fair their wages are. Firms that emphasize the fair treatment of workers with regard to wages and other workplace conditions may produce better outcomes for both themselves and their workers.

