

The Significance of Justice within the Firm

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Why justice in the firm?

Three questions and three short answers

(1) Is *Justice* “only” a matter of politics, ethics and morality?

Answer: No

(2) Why is *Justice* not only a matter of politics, ethics and morality?

Answer: *Justice* matters economically!

(3) Why does *Justice* matter economically?

Answer: *Justice* is a fundamental goal (not only in humans!) and people react with economically relevant behavior when experiencing (in-)justice

Why is justice important?



What is *Justice*?

(1) Who gets what and why?

→ Distributive justice (allocation of burdens and rewards)

(2) How are decisions made?

→ Procedural justice (how are people treated by their supervisor, firm/organization, institutions)

What is distributive justice?

(1) Who gets what and why?

- There are no “absolute” measures of a just wage!
- People compare their own lot with that of others!

With whom?

- same sex
 - same education
 - same occupation
 - same level of hierarchy
 - same workload
- In sum: Status, effort → no equality!
- But: “a little bit equality”: Workgroups with a common outcome – same level of wages!

What is distributive justice?

Four different rules of allocating rewards:

- Equality → close relations/community
- Equity → competitive relations
- Entitlement → hierarchical relations
- Need → family relations

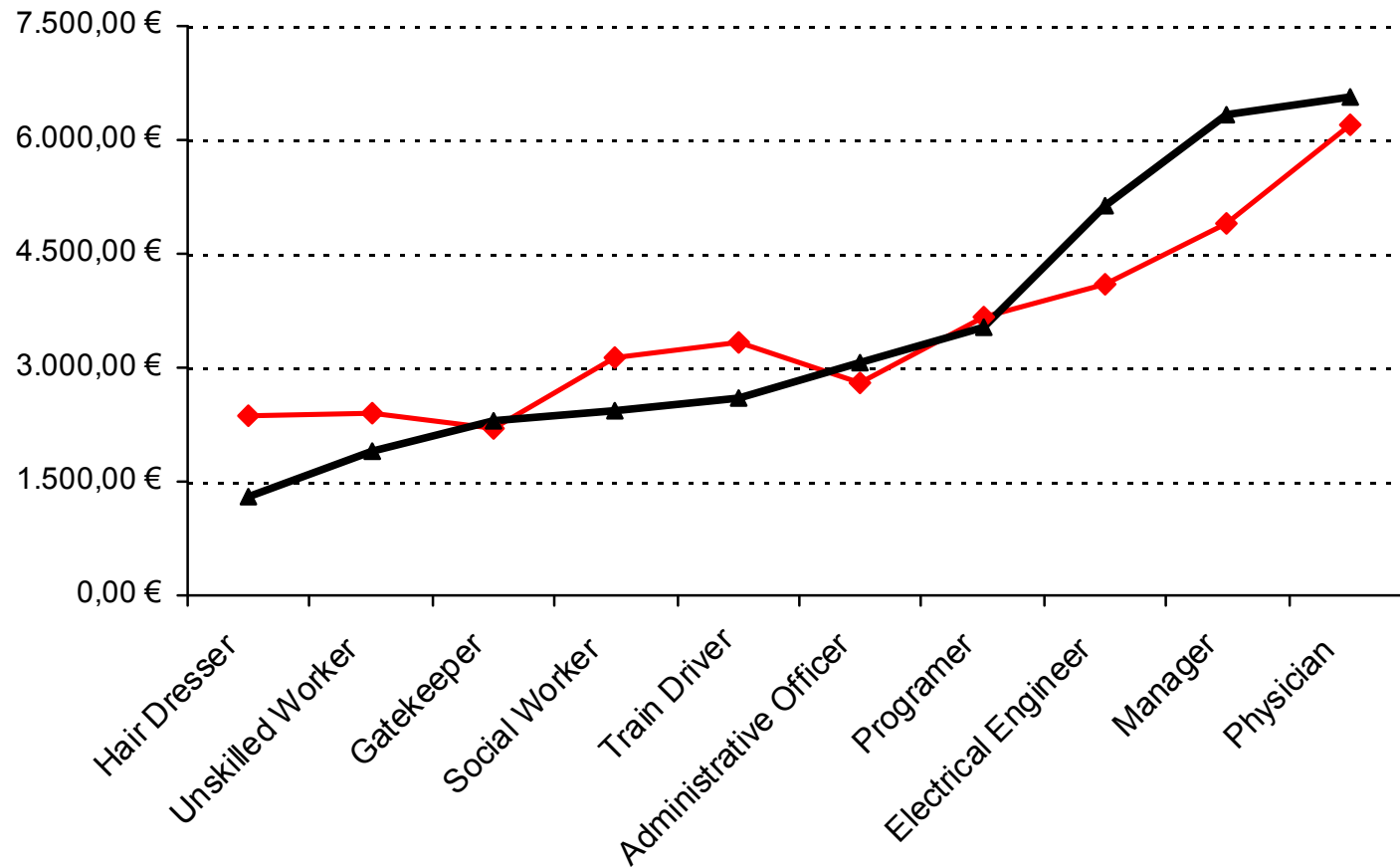
Relation is reversible:

Foster

... close relations/community	by distributing	equally
... competitive relations	by distributing	equitable
... hierarchical relations	by distributing	acc. status
... family relations	by distributing	acc. need

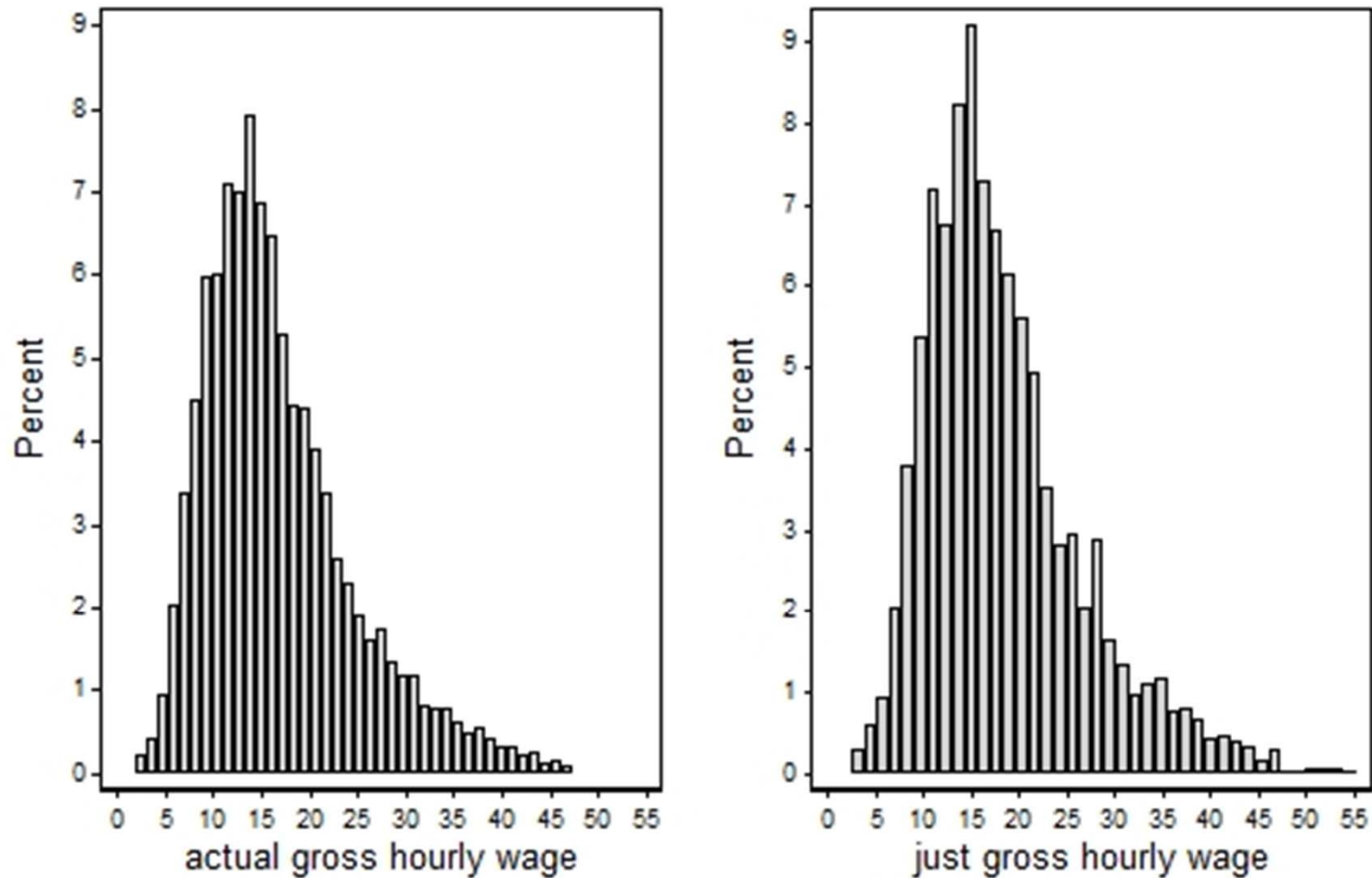
People have clear understandings of just wages

Just Wages of Selected Occupations in Germany



People have clear understandings of just wages

J1



What is procedural justice?

How decisions are made and how people are treated:

Basic criteria of procedural justice:

- *Equal treatment*
- *Voice*
- *Accuracy,*
- *Correctability,*
- *Transperency*
- *Bias Supression,*
- *Comprehensilble*

Procedural injustice and unfavorable outcomes: Accepting

Behavioral Consequences: Lower compliance to institutional rules and social norms

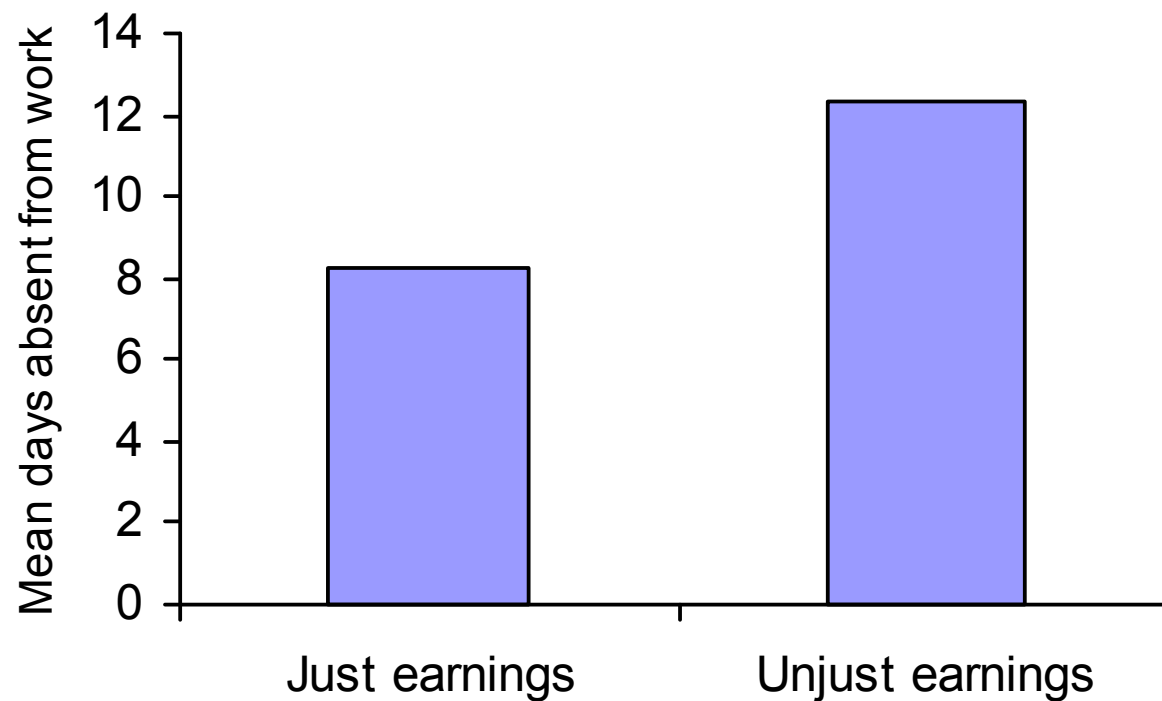
Consequences of Injustice in the Firm

- Psychological and physical health problems
- Attitude at work: „mentaly resigning“, no motivation, no engagement, no trust in management,
- Behavior at work: lower work performance
- No norm and rule obedience

In sum: Passive, fatalistic behavior.

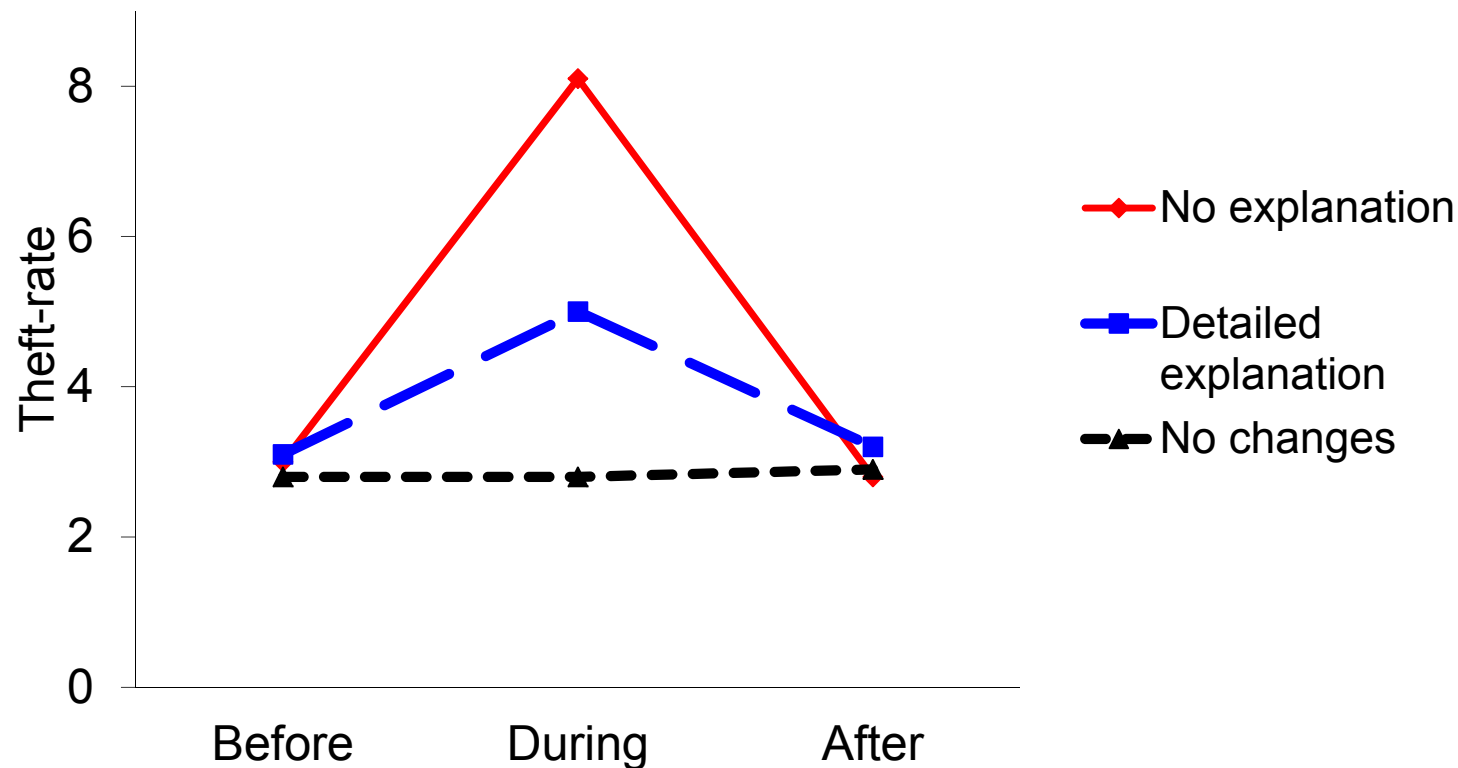
Consequences of perceived injustice in the firm:

Injustice of own wages and absenteeism:
(economic loss due to health related absenseism in Germany:
230 Billion Euro in 2011)



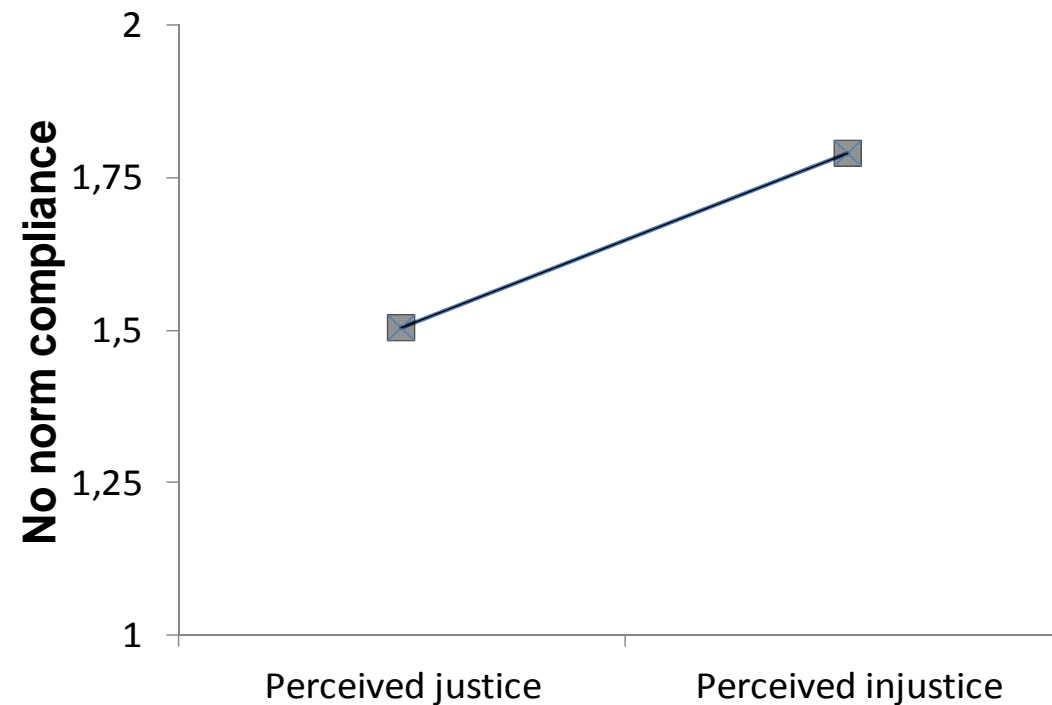
Consequences of perceived injustice in the firm:

Theft-rate in an American firm and temporary wage-cuts
(Greenberg 1990)



Consequences of perceived injustice in the firm:

Non-compliance with work rules



Why is justice important for the individual?

Two central human goals:

1. physical well-being (pW) → stable conditions of production
2. social well-being (social approval) (sW) → fair procedures as „social approval“

... and one strong motivator:

„loss aversion“ : justice rules are important for *detecting cheating* within groups (firms, society).

If there is cheating, individuals who contribute are experiencing „losses“ – more investments with the same outcome compared to those who do not contribute/cheat

Why is justice important for the firm?

- Growing competition on the markets requires stronger focus on „human resources“ - especially in areas with „non-routine“-work-conditions:
 - intrinsic motivation vs. control
 - creativity
 - cooperation and production of „common good“

All these kind of behavior require „justice“ in the firm....