



Hierarchy, coercion, and exploitation: An experimental analysis[☆]



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ABSTRACT

The power to coerce workers is important for the efficient operation of hierarchically structured organizations. However, this power can also be used by managers to exploit their subordinates for their own benefit. We examine the relationship between the power to coerce and exploitation in a laboratory experiment where a senior and a junior player interact repeatedly for a finite number of periods. We find that senior players try repeatedly to use their power to exploit junior workers. These attempts are successful only when junior workers have incomplete information about how their effort impacts on the earnings of senior players, but not when they have complete information. Evidence from an incentive-compatible questionnaire indicates that the social acceptability of exploitation depends on whether the junior worker can detect she is being exploited. We also show how a history of exploitation affects future interactions.

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1. Introduction

Hierarchy is a nearly ubiquitous form of organization. Large multinational firms, small businesses, governmental agencies, and political parties are all hierarchically structured to some degree. A hierarchy typically implies that some individuals have the power to issue orders to others and punish those that disobey them. The power to coerce subordinates into taking specific actions is regarded as essential for the efficient operation of hierarchically structured organizations (e.g., Coleman, 1990; Day, 1963). However, individuals higher up in the hierarchy can abuse this power to their own benefit and exploit subordinates (e.g., Vafai, 2002; Wertheimer, 1987).

The extent of exploitation in organizations is not precisely known. According to the European Values Survey, 50.2% of respondents stated that they felt exploited at work, at least sometimes.¹ What is known, however, is that the exploitation of

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¹ The question on whether individuals felt exploited in their workplace was only included in the 1981 wave of the European Values Survey. In the past decade, the number of lawsuits due to labor exploitation has been steadily increasing (International Labor Organization, 2009).

workers entails significant costs not only for the workers, but also for the organizations. Apart from the significant litigation costs, exploitation has been linked to reductions in workers' morale and productivity (Bewley, 1999), and to an increase in workplace aggression (Baron et al., 1999; Hoad, 1993). The latter has been estimated to cost more than 1.75 million working days each year in the United States (Bachman, 1994).

Despite the importance of the topic, empirical evidence on exploitation in organizations is rare. One reason for this is that exploitation is usually either illegal or socially unacceptable, and thus hard to observe. Another important reason is that it can be difficult to determine what constitutes exploitation in daily life. In general, exploitation can be defined as the act of taking unfair advantage of another party (Wertheimer, 1996, 2008).² However, determining what constitutes “unfair advantage” is not always straightforward as this typically depends on the context of an interaction and the history between the parties involved, which is often unobservable and unverifiable.

The paucity of empirical evidence implies that our knowledge regarding different factors that may facilitate exploitation is limited. For this reason, in this paper, we present evidence from a laboratory experiment exploring whether individuals use the power to coerce to exploit their subordinates to their own benefit and whether this depends on the ability of subordinates to detect that they are being exploited. While the laboratory environment undoubtedly differs in numerous ways from that in the field where exploitation occurs, it has the advantage that it allows one to examine situations where it is easier to establish what constitutes fair treatment of a worker and, thus, what constitutes exploitation. Another advantage of using laboratory experiments is that they allow one to manipulate the environment to determine which factors may make exploitation more likely. For similar reasons, laboratory experiments have been previously used to study issues such as corruption, discrimination, and favoritism for which field data is also scarce (e.g., Abbink, 2006; Bernhard et al., 2006; Cameron et al., 2009; Castillo and Petrie, 2010).³

Our set up is as follows. A senior worker is placed in charge of a project. He must complete the project together with a junior worker. For simplicity, we will refer to the senior worker as “he” and the junior worker as “she”. The two workers are equally efficient at work and the more effort the junior worker exerts on the project, the less effort the senior needs to exert. The senior worker makes a suggestion about how much effort the junior worker should exert. The junior worker is not bound by this suggestion and can disobey the senior worker by choosing to exert a different level of effort. The senior worker observes the junior worker's effort and has the power to punish her. He can use this power to try to ensure that the junior worker does not work less than he does, but he can also use it to coerce the junior worker into working more than him. Therefore, our set up allows us to establish a plausible benchmark for what constitutes fair treatment of the junior worker and what can be defined as exploitation. Like in most organizations, in our experiment, the two workers interact repeatedly for a finite number of periods. This implies that senior workers may have an incentive to invest in coercing the junior worker into exerting unfairly high levels of effort.

Our aim is to examine whether participants in the role of senior workers attempt to exploit junior workers, whether junior workers obey senior workers, and whether senior workers punish junior workers when they disobey their orders. We examine behavior under symmetric information, where junior workers know when they are exploited, and under asymmetric information, where the junior workers cannot detect exploitation. In addition, we employ a method developed by Krupka and Weber (in press) that uses an incentive-compatible questionnaire to elicit participants' normative views against exploitation and coercion, and how these views are affected by whether information is symmetric or asymmetric. Finally, we explore the impact of past exploitation on future outcomes. Field evidence indicates that (perceived) unfair treatment of a subordinate is associated with aggression against supervisors (e.g., Greenberg and Barling, 1999). In our experiment, after senior and junior workers have interacted for a finite number of periods, their roles are switched allowing us to explore how exploited workers behave when they find themselves in a position of power.

The experimental results indicate that participants in the role of senior workers systematically attempt to exploit junior workers. These attempts are much more pronounced under asymmetric information. In line with this behavior, responses to the incentive-compatible questionnaire indicate that senior workers consider higher-than-fair levels of effort more socially acceptable when there is asymmetric information. This is presumably because junior workers do not know they are being exploited. Despite the significant amounts of punishment in both treatments, exploitation is not successful under symmetric information as junior workers disobey the suggestions made by senior workers. Exploitation is successful under asymmetric information, although the extent of exploitation is small. The reason is that junior workers appear to anticipate that senior workers will try to exploit their informational advantage and disobey their suggestions. Disobedience is punished in

² More specifically, Wertheimer, (1996, p. 16) defines exploitation as follows: “A exploits B when A takes unfair advantage of B. Taking unfair advantage could be understood in two ways. First, it may refer to some dimension of the *outcome* of the exploitative act or transaction, that is, the transaction is substantively unfair, and this, it seems has two elements: (1) the benefit to A and (2) the effect on B. We may say that the benefit to A is unfair because it is wrong for A to benefit at all from his act (e.g. by harming B) or because A's benefit is excessive relative to the benefit to B. Second, to say that A takes unfair advantage of B may imply that A has been able to turn some characteristic of B or some feature of B's situation to his or her advantage. We imply that there is some sort of defect in the *process* by which the unfair outcome has come about or the formation of the agreement between A and B, for example, that A has coerced B or defrauded B or has manipulated B.”

³ Laboratory experiments have also been used repeatedly to study topics in organizational economics. Some prominent examples are the investigation of gift-exchange relationships between employers and workers (e.g., Fehr et al., 1993), the adverse effects of monitoring workers (e.g., Falk and Kosfeld, 2006), factors that may facilitate coordination within firms (e.g., Brandts and Cooper, 2006; Weber, 2006), factors that may explain delegation (Hamman et al., 2010) and the impact of membership in organizational groups (Goette et al., 2012)

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