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How, when, and why recipients and observers reward good deeds and punish bad deeds



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ABSTRACT

The strength of organizational norms often depends on consistent reciprocity, i.e., regular and expected rewards for good behavior and punishments for bad behavior. Varying reactions by direct recipients and third-party observers, however, present the potential for unmet expectations and organizational inconsistency. This paper suggests that these kinds of problems are not only common but predictable. To do so, we present and test a theoretical model of reward and punishment behaviors. Three experiments show that, as predicted, observers consistently punished more than direct recipients did and that direct recipients rewarded more than observers did. Experiments 2 and 3 provided additional insights, showing that observers felt a stronger obligation to punish but a weaker obligation to reward than recipients did. These markedly different approaches to rewards and punishments, and the inconsistencies that they produce, provide the basis for a variety of important organizational implications.

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Introduction

Thoughtful actors have a natural tendency to repeat behaviors that are rewarded and avoid behaviors that are punished. For example, children learn what's right, what's wrong, and what's appropriate when they experience a consistent pattern of encouragement, rewards, admonitions, and punishments (Kohlberg, 1963). Within organizations, elaborate incentive systems increase and direct employee motivation (Lawler & Porter, 1963). In essence, rewards for good deeds and punishments for bad deeds create environments that stimulate desirable behavior and deter undesirable behavior (Chen, 2012; Fuster & Meier, 2010; Podsakoff, Bommer, Podsakoff, & MacKenzie, 2006; Wayne, Shore, Bommer, & Tetrick, 2002). Clearly, however, some good deeds go unrewarded and some bad deeds go unpunished. This raises important questions about the contexts and conditions that lead to rewarding and punishing behavior.

The current research addresses these issues by focusing on the individuals who deliver rewards and punishments. More

specifically, we investigated how, when, and why both direct recipients and third-party observers of good and bad deeds chose to engage in rewarding and punishing behavior. *Direct recipients* personally experience the effects of good or bad deeds and, as a result, are likely to be motivated to respond. The constant presence of *third-party observers* in organizational settings (e.g., managers, supervisors, coworkers, and subordinates) also makes them important rewarders and punishers. Data also suggest that observers can play a critical role in the development and maintenance of norms of reciprocity (e.g., Fehr & Fischbacher, 2004a, 2004b; Rand & Nowak, 2013). To address these issues, we present and test a model which suggests that direct recipients and observers respond to good and bad deeds in markedly different ways.

Direct and indirect reciprocity

As Gouldner's (1960) seminal article noted, reciprocity is a universal norm with ancient roots, ranging from Marcus Cicero's observation "There is no duty more indispensable than that of returning a kindness", to the Old Testament's "eye for an eye, tooth for a tooth." The impulse to return a favor or punish harm continues to operate in modern society and modern organizations, from individuals returning kindnesses or revenging slights, to observers awarding bonuses, creating probation systems, engaging in

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organizational citizenship behavior (Organ, Podsakoff, & MacKenzie, 2006), and becoming whistleblowers (Bies & Tripp, 1996). Moreover, although rational choice models (Selten, 1965) suggest that the costs of rewarding good behavior and punishing bad behavior will reduce these acts of reciprocity, research findings indicate that reciprocity is extremely common, even in one-time interactions with strangers (Wang, Galinsky, & Murnighan, 2009; Wang, Sivanathan, et al., 2011).

An extensive literature focuses on direct and indirect reciprocity. Direct reciprocity involves the sequential action of two individuals: *A* helps or hurts *B* and *B* repays *A* in kind. Indirect reciprocity (also called generalized reciprocity or generalized exchange) includes an additional actor—a third-party observer (*C*).¹ Third parties are not directly involved in the initial interaction; instead, after observing it, they can choose to reward good behavior or punish bad behavior (e.g., *A* helps or hurts *B* and *C* responds by helping or hurting *A*; Rand & Nowak, 2013). Direct recipients and third-party observers both play important roles as reinforcers. As a result, our research investigates their positive and their negative reactions.

Research on direct reciprocity is considerable (Abbink, Irlenbusch, & Renner, 2000; Offerman, 2002; Wang & Leung, 2010; Wang, Leung, See, & Gao, 2011). In the Ultimatum Game, for instance, a proposer can offer any portion of their endowment to a responder, who then decides to accept or reject the offer. Studies have consistently found that, even in these one-shot contexts, responders tend to reject offers that are less than 30% of the endowment – an example of negative reciprocity – even though doing so results in lost payoffs for both parties (for a review, see Camerer, 2003). Positive reciprocity (e.g., rewarding) also occurs in one-shot interactions (for a review, see Gintis, Bowles, Boyd, & Fehr, 2005). In one-shot Trust Games, for example, people who receive money from anonymous counterparts typically send substantial amounts of money back to their senders, even though they can maximize their own outcomes by returning nothing (Berg, Dickhaut, & McCabe, 1995). Finally, in non-monetary contexts, e.g., a classic study by Lewin, Lippitt, and White (1939), abusive action by authority figures often stimulated negative reactions from their student groups. More generally, organizational behavior is filled with supervisors and subordinates directly reciprocating each other's positive and negative actions, both explicitly and discreetly (Gerstner & Day, 1997; Sparrowe & Liden, 1997).

Research on indirect reciprocity also shows that third-party observers are important contributors to organizational norms. Although they might easily ignore what they have seen, data consistently show that observers punish people who mistreat others, even at a personal cost (Fehr & Gächter, 2000; Kahneman, Knetsch, & Thaler, 1986; Rupp & Bell, 2010; Wang, Sivanathan, et al., 2011). Experimental participants who observed their partners being insulted, for instance, risked direct confrontation and sacrificed material benefits to retaliate against insulters (Meindl & Lerner, 1983). Organizational observers also tend to help people who have reputations for generosity and withhold help from people who have reputations for stinginess (Baker & Bulkley, 2014). Similarly, interactions among employee peers often involve positive and negative reciprocity, directly and indirectly (e.g., Baker, 2012). Journalists and analysts who portrayed organizations negatively, for instance, risked reprisal from CEOs and top management (Westphal & Clement, 2008; Westphal & Deephouse, 2011) and, in downsized organizations, employees who retained their jobs still

displayed substantive negative reactions toward their organization (Brockner, 1994; Brockner, DeWitt, Grover, & Reed, 1990).

On the positive side, industrial product designers routinely help each other solve design problems (Hargadon & Sutton, 1997), and fair treatment by managers can enhance team performance and individually motivated prosocial behavior (Qiu, Qualls, Bohlmann, & Rupp, 2009). Nowak and Sigmund (2005) also noted that positive reciprocity by observers is important: when reciprocal acts signal that an organization is fair to all of its employees, organizational commitment and citizenship behaviors increase (Cameraman, Cropanzano, & Vandenberghe, 2007; Masterson, Lewis, Goldman, & Taylor, 2000; Naumann & Bennett, 2000; Niehoff & Moorman, 1993), individually and within groups (Liao & Rupp, 2005; Simons & Roberson, 2003).

Punishing bad deeds

Direct recipients tend to have stronger emotional reactions to harm than observers do. Lind, Kray, and Thompson (1998), for instance, found that individuals rated a mild personal injustice as more unfair than another person's severe injustice, suggesting that direct recipients respond more to harm than observers do. This should lead them to be strong sources of punishments (e.g., Sheppard, Lewicki, & Minton, 1992; Tyler & Smith, 1998; Walster, Walster, & Berscheid, 1978). These emotional responses are conveniently consistent with a sense of moral duty to punish wrongdoers (Cropanzano, Goldman, & Folger, 2003; Folger, 1998; Folger & Cropanzano, 2001). For example, Wang and Leung (2010) found that East Asians felt a greater sense of obligation to punish wrongdoers than Americans did and therefore punished more. These findings are consistent with deontic justice – i.e., justice for the sake of justice – which is an important driver of individuals' senses of duty and moral obligation (Cropanzano et al., 2003; Folger, 1998; Folger & Cropanzano, 2001). Indeed, injustice can induce a deontic state that drives desires to punish wrongdoers (Folger, 2001). This discussion suggests that recipients may engage in stronger negative reciprocity than observers, due to both stronger visceral reactions and to social norms.

There are some reasons, however, to temper this expectation, particularly because countervailing social norms, e.g., “doing no harm” and “taking the high road,” can impede recipients' triggers to punish (Bandura, 1991; Osofsky, Bandura, & Zimbardo, 2005). These norms also provide personal benefits to the recipients of harm, for direct recipients who engage in costly punishment often suffer reduced outcomes (Dreber, Rand, Fudenberg, & Nowak, 2008). Indeed, retaliating directly risks additional negative reciprocity and an increasing cycle of vengeance, one of the most common causes of violence in primitive societies, organized crime and gangs, and geopolitical conflict (Davie, 1929; Nisbett & Cohen, 1996; Otterbein, 1970; Turney-High, 1971; Wright, 1965). Thus, direct punishment carries the risk of destabilizing a relationship, as well as stimulating additional negative effects. This may be why many people find avoidance psychologically easier than confrontation (Wang & Leung, 2010; Wang et al., 2009). Although the victims of bad behavior may experience strong emotions, whether to punish, and how much, can still be difficult decisions.

In contrast, observers of bad deeds experience considerably less conflict, and their reactions can be a critical deterrent of subsequent bad behavior. In fact, observers' punishments can effectively enhance cooperation in groups (Rockenbach & Milinski, 2006). Employees carefully observe their supervisor's treatment of other employees, for instance, to determine the fairness of their organization, even when the supervisor's actions do not directly affect them (Kray & Lind, 2002). Similarly, when the outcome of a trial contradicted individuals' moral beliefs, they were more likely to

¹ Although another form of indirect reciprocity exists, in which *A* helps *B* and *B* pays it forward by helping *C*, we do not examine this process here (see Baker & Bulkley, 2014; Nowak & Sigmund, 2005).

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