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Piece of cake? Allocating rewards to third parties when fairness is costly

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ABSTRACT

Reactions to third-party inequality were investigated in three experiments. In Experiment 1, 52 undergraduates allocated money between themselves and two others. Preferences for equal and unequal distributions were also rated. The results show that people are averse to inequalities between themselves and others, and to inequalities between others. Post-experimental ratings indicate that egocentric equality, third-party equality, and max–min preferences are important motives. The findings were replicated in Experiment 2, where 74 undergraduates allocated compensation for a previously conducted task, and in Experiment 3, where 112 participants rated preferences. In these experiments random determination of rewards to third parties altered participants' behavior and preferences. The results indicated that random determination decreases the importance of all fairness motives while increasing the importance of monetary payoff. While people still care about economic equality under these conditions, contextual factors, such as perceived responsibility for unfair outcomes, seem to alter the impact of fairness.
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Distributive fairness has been addressed by many scholars in the past in research domains such as ethical theory (Rawls, 1971), political theory (Walzer, 1983), and psychology (Adams, 1963, 1965; Bar-Hillel & Yaari, 1993; Deutsch, 1975, 1985; Lerner, 1987, 1991; Walster, Berscheid, & Walster, 1973). More recent developments in economic theory have similarly acknowledged the role of fairness, where people are assumed not only to care about their own welfare but also the welfare of other people (Bolton & Ockenfels, 2000; Fehr & Schmidt, 1999; Loewenstein, Thompson, & Bazerman, 1989; Rabin, 1993). Here, fairness is usually defined in terms of how equal (or unequal) material distributions are between people or groups of people, with the basic idea that utility is derived from one's own monetary payoff, whereas disutility is derived from advantageous inequality (receiving more than others) and disadvantageous inequality (receiving less than others).[1] Regardless of which perspective a distribution is judged from, the impact of different fairness motives can be expected to vary between situations and across domains, since peoples' preferences are often context dependent (Bazerman, Loewenstein, & White, 1992; Garcia, Tor, Bazerman, & Miller, 2005; Hsee, Blount, Loewenstein, & Bazerman, 1999).

Third-party fairness

As indicated above, previous research has focused largely on egocentric fairness, where comparisons are made between a decision maker and some other person. However, social-interaction often takes place in groups consisting of more than two persons. Theories of family systems typically assume that the basic structure in which a child becomes a social being is (at least) a triad (Geurin, Fay, Burden, & Kautto, 1987). Since it is in such environments that most of our values, attitudes, norms, and moral codes are first learned and tested we believe that concern for people who do not interact with, or are directly compared with the decision maker, is a potentially important motive. This is especially true considering the plethora of real-life situations where judgments of fairness between third parties become salient, for instance in the realms of political decision making and organizational behavior.

There are some studies that acknowledge the impact of comparisons between third parties. For instance, Mikula (1994) argued that a person can experience unfairness from three different perspectives. He or she can (i) be the victim of others people's unfair behavior, (ii) observe others being treated unfairly without being involved, and (iii) have the opportunity to treat others unfairly. Fetchenhauer and Huang (2004) report a study testing sensitivity to violations of these justice concepts. Participants accepted or rejected advantageous and disadvantageous offers to themselves, and disadvantageous offers to powerless third parties. The results

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[1] In this vein Fehr and Schmidt (1999) proposed a model that simultaneously explains choices of fair outcomes in ultimatum and dictator games (Camerer & Thaler, 1995; Güth & Tiez, 1990; Roth, 1995; Thaler, 1988) and competitive behavior in market games (Roth, Prasnikar, Okuno-Fujiwara, & Zamir, 1991). It has also been shown that people strive to minimize payoff differences in social dilemmas (Eek, Biel, & Gärling, 2001; van Dijk & Wilke, 1994, 1995; van Vugt, Snyder, Tyler, & Biel, 2000) and in bargaining situations (Güth & Huck, 1997).

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indicate that people are sensitive and react to all three types of inequalities, showing that evaluations of fairness neither need be limited to one's own relative position, nor to interactive agents within a particular game. Especially relevant for the present research is the fact that those people who were sensitive to advantageous inequality (offers in their own favor) were also more sensitive to unfair offers to outsiders, whereas no link was found between either of these two motives and disadvantageous inequality (offers where the decision maker is disfavored). A conclusion is that the latter fairness notion can be regarded more as an antisocial than as a pro-social personality disposition not necessarily related to equality as such. A similar conceptualization is offered by Schmitt and Mohiyeddini (1996) and Mohiyeddini and Schmitt (1997).

What drives third-party fairness?

There are in other words good reasons for assuming that fairness evaluations extend beyond egocentric comparisons. Yet, we do not know what exactly drives the assumed concern for third parties. One take is that it is driven by concern for the individual receiving the lowest payoff (Charness & Rabin, 2002; Engelmann & Strobel, 2004), as posited in the Rawlsian theory of max–min preferences (Rawls, 1971). Another possibility, however, is that people are concerned with economic differences as such. Accordingly, what matters is not foremost the fact that some individual receives a low payoff, but rather that there are differences in payoffs between other individuals. In this vein Johansson and colleagues recently showed that decision makers, when performing a resource–allocation task, reacted to differences in outcomes between groups of unknown others by trying to minimize these differences (Johansson, Gustafsson, Olsson, & Gärling, 2007). Research by Turillo, Folger, Lavelle, Umphress, and Gee (2002) have also shown that people prefer fair allocations between others, whereas Mitchell, Tetlock, Mellers, and Ordoñez (1993) found that solutions leading to poverty for people in general tend to be rejected. Other research demonstrates that evaluations of fairness depend not only on concern for the lowest paid individual, but also on the cognitive process of comparisons between payoffs. For instance, a study by Johansson (2005) showed that judged fairness is negatively related to the average difference between the outcomes when the number of possible comparisons between groups or individuals increases.

Altruistic fairness

It has been suggested that altruistic fairness has an evolutionary explanation since it facilitates cooperation, which in turn increases outcomes at both the individual and group level. Previous research also supports the idea that altruism may exist as an empathic reaction in response to another's need or distress, not only in humans but also in birds and mammals (de Waal, 2008). It has furthermore been shown that taking someone else's perspective may cause empathy-induced helping behavior, even towards a stranger (Batson, Early, & Salvarani, 1997), and that such empathy is independent of a perceived merging of oneself and the other individual (Batson et al., 1997). It may still be questionable whether reactions to third-party inequality (and other variants of inequality for that matter) stem from a genuine concern for other people's welfare. The fairness literature lends little empirical support to such a notion (Piluttla & Murnighan, 2003). Some psychological theories argue instead that people derive value from the mere expression of an opinion or attitude (e.g., Herek, 1986; Katz, 1960), particularly under circumstances when statements are not binding or not directly tied to outcomes (Kahneman & Knetsch, 1992). According to these theories it is not the consequences of an action that matters, but rather to what extent that action may be attributed to the individual, and also, what implications it has for the individual's self-image as a good and generous person. This has long been recognized in the public economics literature, where people are assumed to receive a "warm-glow" from engaging in good causes, such as making a monetary contribution to public goods (e.g., Andreoni, 1989, 1990), especially prominent when donations are hypothetical or involve small financial stakes (Johansson-Stenman & Svedsäter, 2007).

In drawing on these insights we may argue that acts of fairness often are symbolic in nature and driven by a motivation to appear moral rather than to actually be moral (Batson, Thompson, & Chen, 2002; Piluttla & Murnighan, 1995). Previous research has shown that when the link between actions and consequences is unknown, ambiguous or mediated by some external event, fair-minded behavior becomes less prominent (Dana, Weber, & Kuang, 2004; Rabin, 1993; Svedsäter & Johansson, 2007). Such circumstances seem to generate a "moral license" for pursuing self-interested goals, potentially because the individual does not feel as responsible for any potential harm inflicted on someone else. As a consequence, the negative impact on the individual's self-image for not acting morally, or similarly for not being generous, is less prominent.

Motivated reasoning

A psychological explanation of these phenomena is offered by Kunda (1990) who argues that people tend to use their cognitive capacity instrumentally by adapting their reasoning to a preferred conclusion, for instance by believing that the outcome that is best for them is the most fair or best for others as well (Messick & Sentis, 1979). A specific case is provided by Batson et al. (2002), who demonstrated that people may use unbiased procedures to justify self-beneficial but unfair outcomes. Here participants first allowed a coin-flip to determine who should conduct a desirable and an undesirable task. When the coin flipped in their own favor it was relied on slavishly, seemingly providing a perfect reason for why the decision maker should perform the desirable task. However, when the coin-flip went against them many participants tended to ignore this by still allocating the most desirable task to themselves. This finding is an example of motivated reasoning, whereby directional goals make people rely on a biased set of cognitive processes. People may thus construct seemingly reasonable justifications for arriving at the conclusions they want to arrive at. They may, for instance, strive to justify a self-serving behavior (e.g., Kunda, 1990).

Aims

After first investigating whether third-party inequality aversion exists, we aimed to test whether this equality notion also held up in situations where unfair outcomes were more easily justified. This was done by introducing a context that presumably diffused the perceived personal responsibility for unfair outcomes, created by the manner in which specific payoffs to other individuals were determined. Furthermore, in order to relate third-party fairness to other fairness motives, two decision situations were introduced, one where the decision maker was better off, and one where he or she was worse off than the two other individuals.

The results of three experiments are reported. A dictator game was conducted in Experiment 1, investigating the trade-offs people make between their own monetary gain and outcome equality, ran as a classroom experiment. The main purpose of this experiment was to establish the effects of third-party fairness, evaluated when the decision maker is in an advantageous position versus two other individuals. In Experiment 2 we introduced disadvantageous payoff distributions alongside advantageous ones, and distinguished

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