EQUAL PAY. BETTER PERFORMANCE. EXPERIMENT REVEALS: STANDARDISED CONTRACTS MAKE ECONOMIC SENSE

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Standardised employment contracts based on the "equal work, equal pay" principle boost motivation. There is a clear increase in performance levels and market efficiency compared to working conditions based on individually negotiated contracts. This important finding was uncovered by scientists from the University of Innsbruck, Austria, as they analysed results from an economic experiment. The project, supported by the Austrian Science Fund (FWF), has attracted great interest in Austria, as it also seems relevant to the type of collective contract that is commonplace there.

When it comes to hiring new staff, employers can choose to offer standardised contracts – where equal responsibilities are remunerated on an equal basis – or to negotiate individual contracts. Dr. Martin Kocher, Dr. Wolfgang Luhan and Prof. Matthias Sutter from the Department of Public Finance at Leopold Franzens-University in Innsbruck can now offer some help to those faced with this tricky decision.

Their research has proved for the first time that employers draw clear benefits from standardised salaries because, if a market only issues incomplete contracts, employee responsibilities become difficult to pin down. In other words, standardisation does not simply increase salaries, it also generates economic advantages in the shape of better performance and greater market efficiency.

MORE PAY, BETTER PERFORMANCE
These research results are clearly reflected in the data collected, as Project Manager Prof. Sutter explains: "Our observations revealed that, compared to individual agreements, salaries related to standardised contracts are 30 percent higher. However, performance is also higher in these cases – by 29 percent. Faced with these results, it comes as no surprise that salary standardisation also increases market efficiency by almost a quarter. Standardised contracts, the economic advantages of which have never before been investigated, are now becoming increasingly attractive thanks to these results."

The point behind these results seems simple. Employers who wish to financially reward individual employees in the long term must also increase the salaries of all other employees. The salary increase causes everyone to work harder and, as a result, leads to greater market efficiency. This cycle is generated due to the fact that incentives and socially responsible standards play a key role in a market where responsibilities are difficult to specify in contractual form.

MISSING SERVICE

These results were based on a laboratory experiment involving almost 200 students from various courses at the University of Innsbruck. A "gift exchange game" was used to simulate a market where employers could offer potential employees different contracts.

But practical examples are easy to find, especially in the service industry, as Prof. Sutter explains: "Particularly in the university system, employees who essentially have the same job description are remunerated on very different scales. This is due to the rapidly changing employment conditions in the public service sector. As a result, lecturers and professors get different contracts with different salary and pension rights. Our data now suggests that this could have a negative impact on performance."

At first sight, the research results would appear to be relevant to the collective contracts that are a traditional part of the Austrian labour market. However, these contracts do not involve employers standardising salaries, but rather trade unions entering into salary negotiations that affect whole occupational groups. As the scope of the laboratory experiment was limited, questions as to its relevance in this area must remain unanswered for the time being. Nevertheless, results from the FWF-supported project have shown that salary standardisation can bring unexpected economic benefits – perhaps even if these are the result of trade union processes.

Image and text will be available online from Monday, 20th November 2006, 09.00 a.m. CET onwards:
www.fwf.ac.at/en/public_relations/press/pv200611-en.html

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