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The Ethics of Employment Relations and Human Resource Management: Kohlberg's Seven Levels of Morality

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Abstract

In the past, the academic fields of employee relations (ER) and Human Resource Management (HRM) have not shown a marked interest in the issue of moral philosophy. An understanding of how ER/HRM relate to ethics can be shown in two ways. It can be viewed from an HRM/ER or an ethical philosophy perspective. This article presents the latter. It extends from previous applications of Kohlberg's *Moral Development* (Kohlberg 1971, 1981 & 1984) to management to the work of Velasques (2012) as the most recent. This article delivers normative support for these applications underpinned through an empirical study. Secondly, the article extends these applications to HRM and to ER. Laurence Kohlberg (1927-1987) was interested in how humans develop moral understanding. He introduced the *Scale of Universal Moral Development* which is used to compare the morality of ER and HRM. An empirical case provides supporting evidence for the location of ER (4-6) and HRM (2-4).

Key Words: Ethics, Morality, Kohlberg, Kant, Universalism, Utilitarianism, Management, Labour Relations, Employment Relations, Human Resource Management.

Introduction: Ethics and the World of Work

Ethics is part of philosophy. Ever since the birth of business administration, management, employment relations (ER) and Human Resource Management (HRM), ER and HRM have retained an ethical content (Kaufman 2004; Johnson 2007; Klikauer 2008; Trevino & Nelson 2011). For the purpose of this article, HRM is seen as *the management of people at work* (cf. Beardwell & Claydon 2011; Belcourt et al. 2011; Grobler et al. 2011; Jackson et al. 2012; Macky 2008; Patrick et al 2011; Schwind et al. 2010). HRM's intellectual tradition lies in business administration and management as well as the academic discipline of management studies. By contrast, ER refers to a non-hierarchical societal relationship between three actors: employers, management, and employer federations; trade unions; and the state (Dunlop 1958). These three actors operate at four levels (Kochan, Katz, & McKersie 1986; Klikauer 2011): workplace (e.g. offices, workshops, etc.), industry (e.g. car industry, airlines, mining), national (country-wide), and international (e.g. European Union, International Labour Organisation). ER's tradition is found in labour history, labour economics, industrial sociology, and political science.

In the field of business- and management-studies as well as HRM, ethics has been expressed in numerous academic books, textbooks, and articles. The most common form of dealing with ethics in HRM and ER, however, remains the occasional chapter on *human resource ethics*

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and *employee ethics* in standard textbooks (cf. Kramar, Bartram & De Cieri 2011; Storey 2007; Johnson 2007; Anthony et al. 2006; Redman & Wilkinson 2006; Arnold 2005; De Cieri and Kramer 2005; Torrington et al. 2005; Hatcher 2002; Petrick & Quinn 1997).

Rarely, however, are there substantial articles, monographs, or non-textbooks on ER and HRM ethics. On those occasions when ethics is discussed, it appears as if ER/HRM writers apply fragments of moral philosophy to their field. It is less common that philosophers or experts in ethical theory write on ER/HRM. Hence, a shortcoming of texts from a philosophical-ethical standpoint has been detected (Pinnington et al. 2007:1). This article sets forth a contribution towards the role of ethics in ER/HRM.

The origins of ethics and moral philosophy date back to a time when humans began to organise societal forms that reached beyond the animal kingdom demanding some *code of conduct* to guide human action (Krebs 2011; Nowak & Highfield 2011; Singer 1994). Today, management ethics is well established and discussed primarily under three headings: utilitarianism, Kantian ethics, and virtue ethics (Velasques 2012; Shaw & Barry 2010; Samson & Daft 2009; Klikauer 2012 & 2010:126-169; Driver 2007; Martin 2007; Shafer-Landau 2007; Harrison 2005; Wiggins 2006; Kaptein 1998; Young 2003; Singer 1994; Wood 1990; Weber 1990:689; Gilligan 1982; Kohlberg 1971, 1981, 1984).

These three areas of ethics centre on some of the core moral questions: *How do I live an ethical life? What is a good life? What should we do in order to be good?.* Unitarianism, for example, seeks to reflect positively on the well-being of all persons. It dates back to Francis Hutcheson (1694-1746), Jeremy Bentham (1748-1832), John Stewart Mill (1808-73), and Moore's *Principia Ethica* (1873-1958). They saw the maximisation of the good as the end of morality creating the greatest good for the greatest number of people. What is good as defined by Kant (1724-1084) belongs to a *categorical imperative (CI)*. One of his CIs, for example, states that people should never treat others only as a means but always as an end *in-itself*. For Kant's *Kingdom of Ends* (Korsgaard 1996), this is expressed in two formulas (Driver 2007:87-90):

- a) *act only according to that maxim whereby you can at the same time will that it should become a universal law and*
- b) *act in such a way that you treat humanity, whether in your own person or in the person of another, always at the same time as an end, never simply as a means.*

In contrast to Kant, virtue ethics as understood by Greek philosopher Aristotle who believed all people carry intellectual and moral virtues as *theoretical* wisdom and *practical* wisdom (cf. *Neo-Aristotelian Ethics* by Hume, 1711-76). Greek philosophy, however, also shaped the idea of *ethical relativism* (plato.stanford.edu/entries/moral-relativism). In short, it denotes that there is no universal moral standard by which to judge others. However, most of today's moral philosophy tends to agree with *Universalism* rather than relativism. Universalism has influenced many ethical theories such as Hegel's *Sittlichkeit*, Peter Singer's *Famine, Affluence, and Morality* (2007), and Pogge & Horton's *Global Ethics* (2008).

Universalism suggests that universal ethics unites all humans. Virtually all prehistoric tribes, clans, groups, and bands of humans, all societies, religious texts, law books, etc. agree with the dictum '*you shall not kill*'. One of the clearest and most powerful outcomes of universalism has been the *Universal Declaration of Human Rights*. It provides a moral code that belongs to all humans without exception. The post-World War II declaration of these

rights had their origins in Kantian ethics. Kohlberg too sought to ascertain how humans develop universal morality from a philosophical and psychological point of view. He tried to understand morality after the experience of the monstrosities and inhumanities of Nazi-Germany (Bauman 1989).

The Ethics of Kohlberg: ER and HRM

The American psychologist and ethicist Laurence Kohlberg (1927-1987) made a unique contribution to the understanding of morality by developing a seven-stage model (Velasques 2012; Klikauer 2012 & 2010:126-169; Schwind et al. 2010:18f.; Mumby 1988, 1997, 2000, 2001; Deetz 1992 & 2001; Habermas 1990; Blum 1988; Reed 1987; Goodpaster 1982; Kohlberg 1971, 1981, 1984). These stages provide a universal foundation as well as a moral structure that is helpful when seeking to understand the moral development of humans. Today, Kohlberg is ranked as the 30th most influential psychologist of the 20th century. His scale has been widely adopted in standard literature on management ethics (cf. Weber 1990; Linstead, Fulop & Lilley 2004:260-264 & 2009:385-393; Martin 2007:80-81; Trevino & Brown 2008:70); Samson & Daft 2009:179; Klikauer 2010:126-169; Kramar et al. 2011:555; Velasques 2012: 38-45).

However, virtually all previous applications of Kohlberg’s model to management contain two problems: firstly, practically all of these manifold ‘*Kohlberg-to-management*’ applications are made without empirical foundation and secondly, they apply Kohlberg to management in general rather than to management’s sub-division of HRM. An application to ER is similarly outstanding. As a consequence, this article extends previous findings in the following way. It expands previous applications of ‘*Kohlberg-to-management*’ to HRM and to ER. It does this by building on non-empirical applications of Kohlberg’s model found in many textbooks on management ethics. Kohlberg’s stages, as outlined by Kohlberg and replicated in many textbooks on management ethics are as follows:

Table 1: Kohlberg’s Stages of Moral Development

Stage	Orientation	Moral Motives
0	• Impulsive and amoral	• None
1	• Obedient and Avoidance of punishment	• Irrational dread of punishment • Fear of those in authority
2	• Personal benefits & rewards • Getting a good deal for oneself	• How to get most pleasure and gain for oneself • Calculating the personal risk and payoffs of an action
3	• Conforming to social expectations • Gaining approval	• Avoiding disapproval by associates and close ones • Wanting to be praised, liked & admired, rather than shamed
4	• Protecting law and order • Maintaining the existing system of official social arrangements	• Performing formal duties and responsibilities • Meeting official standards • Working for the best interest of an

- | | |
|---|--|
| <ul style="list-style-type: none"> 5 • Promoting justice and welfare within a wider community as defined in open and reasonable debate 6 • Defending everyone's right to justice and welfare, universally applied 7 • Respecting the cosmos as an integral whole <ul style="list-style-type: none"> • An openness extending well beyond humanity | <p>institution</p> <ul style="list-style-type: none"> • Following principles that serve the best interest of the great majority • Striving to be reasonable, just and purposeful in one's action. • Applying well-thought principles • Being ready to share & debate these openly & non-defensively • Respecting the intrinsic value of the cosmos with its wider harmonies and paradoxes |
|---|--|

Sources: Linstead, Fulop & Lilley 2004: 260-264 & 2009:385-393 & Velasques 2012: 38-45

Table 1 shows an overview of Kohlberg's seven levels of morality. In fact, it lists eight because Kohlberg regarded the first stage as somewhat irrelevant to morality arguing that newborns cannot develop moral understanding. He defined this early stage as zero because moral development is not possible at this stage. Beyond that all human beings, their ideas, beliefs, conceptual understanding of the world, as much as all institutions, religions, political parties, social settings, social organisations (employer federations and trade unions, ER, HRM, etc.), for-profit-organisations such as business, corporations, companies, trusts, cartels, holdings, joint-ventures, hedge-funds, etc., and democratic institutions (the state with legislature, administration, and justice system) fall into one or the other stage (cf. Weber 1990:696f.).

Stage Zero: Impulsive

The key concept of stage zero is *whatever I want at any time is seen as right, regardless of the consequences and without any form of social concern*. The so-called impulsive *baby-stage* cannot be applied to ER and HRM because both deal with fully developed human beings matured beyond the stage of non-existing moral values. However, there might still be an historical case in the realm of management. In the early years of Frederick Winslow Taylor's (Un-)Scientific Management (Klikauer 2007:149-154), management expected that a workforce exhibited child-like, impulsive, reflexive, and stimulus-response like behaviour. Management's founding father, Taylor (1911:59) noted *he [worker] should be so stupid and so phlegmatic that he resembles the mental make-up of the ox...to train an intelligent gorilla...[and]...he is so stupid that the word 'percentage' has no meaning to him*. This is not to say that Kohlberg's infants resemble an ox or gorilla but it shows the ethics of the inventor of 'scientific' management.

Stage One: Obedience and Punishment

Obedience and punishment play powerful roles in human lives (Kafka 1919; Adorno 1944:74; Skinner 1948, 1953, 1971, 1974; Milgram 1971). Linguists such as Chomsky (1959 & 1971) have severely critiqued the notion of punishment. Despite this, punishment –along with positive and negative enhancement– remains one of the core elements of Skinner's theory on

conditioning and is still part of HRM's *Workplace Psychology* (Arnold & Randal 2010; Schultz & Schultz 2010; Arnold 2005; cf. Marin & Pear 2007; Lemov 2006; Baum 2005; Mackintosh 1983; Katz & Kahn 1966). In his critique on Skinnerian conditioning, Chomsky writes (1971:33) *except when physically restraining, a person is the least free or dignified when he is under threat of punishment*. Inside ER, trade unions, for example, have next to no punishing powers (Offe & Wiesenthal 1980), states retain the monopoly of violence and other forms of punishment (Bauman 1989; Arendt 1951, 1958 & 1994; Reich 1946). At work, HRM holds punishment powers in the form of disciplinary action. While HRM hardly ever *restrains* workers *physically* at today's workplaces, punishment, for example, through demotion, wage cuts, reduction in working conditions, fines, dismissal, etc. has not ceased. In Skinner's model of *obedience as punishment avoidance*, HRM would be seen as dictatorial if it would base its authority solely on punishment. Unlike state and trade unions, HRM rules are set in non-democratic, dictatorial ways, and must be obeyed. Disobedience will lead to punishment such as fines, loss of employment, etc. and is to be avoided.

What Monk (1997:57) has called *Management by Fear* is a model that hands out managerial orders. Philosopher Theodor Adorno (1944:22) has summed this up as *the ones who help because they know better turn into the ones who humiliate others through bossy privilege*. Social relations that are constructed in this way define relations as highly authoritarian, governed by domination and top-down hierarchies. At this stage, authority –power associated with a position in an organisation– is enshrined in what constitutes the hierarchical relationship. Without hierarchy authoritarian relationships at work are hardly possible. Each actor in this structure has a clearly defined position. Even those at the bottom are still made to believe that they have subordinates - even though these might be externalised (wives, husbands, children, pets, etc.). The core pattern of such hierarchy defines authoritarian, asymmetrical, aggressive, violent, unequal, and domineering relationships (Katz & Kahn 1966:352; Leslie 2000; Foucault 1995; Marcuse 1966).

Stage Two: Benefits and Rewards

At stage two, ER actors and HR managers act essentially in their own interest (Delaney 2005:2004). These actors make deals with others as a necessity in certain situations. However, such deals are purely governed by self-interest (Chomsky 1994:9; Macklin 2007:279). If ER actors and HR managers deem a working relationship with others and their representatives as absolutely necessary, then this is conducted through *give and take* bargaining. Relationships only take place when they serve self-interests and if at all necessary. They are reduced to *zero-sum win-lose* strategies inside cost-benefit calculations. Any information provided to others is viewed as a loss to one of the three actors of management/employers, state, and trade unions. Relationships are reduced to a simple *means* (Kant) of an instrumental tool without having any intrinsic *ends* (Kant). Consequently one ignores other members and refuses to engage with them and their representatives when such an engagement is deemed unnecessary. Those without power are mistreated and exploited because their weakness exposes them to the supremacy of the strong (Nietzsche 1886).

This is the stage of Machiavellianism where the key to success is the desire to manipulate others for one's own benefit in a '*me, myself, and I*' view of social settings. In a setting of '*all against all*' (Hobbs 1651), the use of strategy as a deception of the enemy is the order of the day. Forms of deviousness and trickery are applied whenever required to get ahead. Not surprisingly, Machiavellian personalities can be found working successfully in professional

occupations, particularly in those that deal with people. They even excel in bargaining and more so when bargaining for a better deal for themselves (Jackall 1988; Schwartz 1990; Magretta 2002; Schrijvers 2004).

Stage Three: Conforming to Expectations

At this stage an ER actor tries to position others in a way that forces them to be supportive to them. This is done in order to prevent others from taking on any critical, unsupportive, or challenging positions. Avoiding such criticism ensures that one's self-interests are not exposed and hurt. One expects from others to show loyalty. They are supposed to live up to one's expectations. Relationships at this stage are based on obedience that seeks approval and endorsement (Klikauer 2007; Legge 2005:39, 1995; Korczynski 2000). These are highly distorted relationships that often exist under a domineering monopoly. This is the stage where one no longer directly attacks other social actors. According to Adorno and Horkheimer (1944:12) one no longer attacks the other's life, body, and property. All of this remains intact. In fact, neither the state nor management operates with phrases like *you must think as I say or die*. Instead, their motto is: *you are free not to think as I do*. Non-compliance however is punished through exclusion: *from this day on, you are a stranger amongst us* (Adorno and Horkheimer 1944:12).

Compliance on the other hand is supported inside a frame of reference constructed around the language of *trust* and the one-dimensionality of a shared interest (Korczynski 2000). To support compliance, the metaphor of '*we are all in one boat*' has been used ideologically (Stewart 2007:73; Klikauer 2007:198). This conveys a message of esprit de corps, groupism, cohesion, and inclusion.

At this stage, all three actors also start using an *inclusive* language to support compliance. They communicate social *exclusion* when others are non-compliant. All ER/HRM actors are forced to value other actors for their own sake. The three actors become, in effect, a self-image of an ER/HRM system adopting a mutually shared interest. By identifying themselves with the current ideology that defines interest as the interest of state and employers for example, trade unions become part of the prevailing managerial- and state-ideology. However, this identification tends to serve predominantly management, employers, and the state in achieving what they had set out to achieve: submissive and conforming employees and their representatives.

Research has shown that individuals who have been socialised before entering managerial regimes *carry institutional roles as conforming workers to transient settings that simulate the authority setting for more permanent organizations* (Katz & Kahn 1966:304). In other words, if individuals move from primary socialisation (schooling) during the pre-work period to work, they *carry* authority conforming elements. And they will continue to do so even when they move between the work and consumptive domain (Lemov 2006; Jex 2002:62 & 87; Alvesson 2002). Once employees have become part of a work regime, they have already undergone years of conditioning to system compliance. At work, system conformity is further fostered through authoritarian ideologies in the off-work domain. After years of primary socialisation, even union members recognise *symbols of authority* that demand conformity inside managerial settings. In short, the school principal's office becomes the work supervisor's office (Bowles & Gintis 1976; cf. 1981 & 2001; DeVitis 1974; Bauman 1989:151ff.; Klikauer 2007:163).

Stage Four: Rules, Laws, and Order

At stage four, trade unions, for example, are seen as fulfilling their role by performing duties as set out by employers and the state (DeCeri & Kramer's 2005:629, Scott 2005:173ff., Laffer 2005:274-276). At work and supported through legal regulation by the state, management invents and enforces rules and duties, upholds policies, formal regulations, conventions, laws, and procedures (Knowles 1955). These are often means-ends generalisations that tell employees what to do and how to behave in a general sense using a technical, managerial and bureaucratic language that enforces rule compliance. Inevitably however, rules must be linked to those who are supposed to follow them in order to render them *follow-able* so that employees and trade unions can be made to comply with such rules and to follow them rather than break them. The task is therefore to close Hirschman's (1970) *exit-option*, lower the *voice-option*, and increase the *loyalty-option*. Secondly, state rules are often *prescriptive* so that they direct trade unions towards what the state wants them to do and away from what trade unions want to do. Thirdly, rule-governed behaviour must be *adjustable* so that those who do not conform can be exposed to rule-adjustment initiatives such as behaviour modification, manipulation, and disciplinary action. In general, trade union's rule-deviance is evaluated negatively while conformity and compliance are evaluated positively (Baritz 1960).

Finally, many rules are impersonal and as such decrease the visibility of state and managerial power relations. Such rule-based patterns of behaviour that guide the relationship between HRM and employees can be portrayed as free of power and conflict, simply because they are based on rules. These rules even take on a neutral or natural appearance (Klikauer 2008:96). One only needs to adapt to the natural force of managerial rule. The state and trade union's role is seen as being a compliant contributor to the good of the business and to make special efforts to act consistent with managerially defined *official* roles, duties, and standards. Employees are seen as subscribing to properly formulated rules and procedures which often appear more natural and serious to those '*to be ruled over*' than to the rule-maker. Employees are captured in an ideological web of rule-obedience. The height of rule-based systems that can be achieved at stage four has been summed up by Adorno and Horkheimer (1944:12) as *immovably, they insist on the very ideology that enslaves them*.

Stage Five: Justice and Welfare

At this stage ER/HRM shows some sort of interest in the betterment of social affairs, human, civil, political, and economic justice, and human welfare (Budd & Scoville 2005:5; Bowie 2005:61ff.; Pogge & Horton 2008). Usually this is more evident for those *outside* companies than for those *inside*. It demands a truthful ER system set up at a national level (Kochan, Katz, & McKersie 1986). Ethics is largely externalised and understood to be important by ER/HRM so that those outside the ER/HRM system (society in general, NGOs, community, and others) see ER/HRM as being ethical and adhering to commonly agreed social standards of Hegelian *Sittlichkeit* (Marcuse 1941; Adorno 1993; Klikauer 2010:88-104). Morality is no longer reduced to being a surplus or a kindly afforded substitute to a process that adds value to organisations. It is seen as an inherent part of all ER/HRM activities and all ER/HRM actors. This may not be the case inside company based HRM where ethics is often seen as a mere add-on to profit-making (Durand & Calori 2006; McWilliams's 2006:1; Clegg, et al. 2006; Carr 1968). Watson (2003:48) has summed this up in the following way:

‘..when those who speak the managerial language wish to demonstrate their concern for the less fortunate or the less profitable, or the community at large, they speak of addressing the triple bottom line through corporate social responsibility known as CSR...Principally...their language has been stripped of meaning. They don't have words like generous, charitable, kind, and share...welfare, wealth transfer, social service, social benefit, social policy, and social contract’, (cf. Klikauer 2008; Banerjee 2007).

At stage five, two different concepts of relationship between HRM and ER are starting to collide. This becomes prevalent when two diverging logics face each other (Offe & Wiesenthal 1980). On the one hand, non-democratic but highly instrumental forms of action enshrined in corporate hierarchies are upheld on the side of HRM. On the other side, ER supports non-strategic and non-instrumental forms of *participatory and deliberative democracy*. Neither trade unions nor states are confined to managerial efficiency, cost-benefit, profit-maximisation, shareholder-values, and means-ends ideologies. Instead, such a non-managerial but democratic version of industrial relationships allows actors to find common agreement directed towards the upholding of ethics and human rights and to engage with others where forms of participation and democracy flourish. In line with democratic principles, over and above business, organisational, and institutional needs, concern for a greater good is developed by all actors carrying connotations to the ethics of utilitarianism's principle of *The Greatest Happiness for the Greatest Number of People* (Sidgwick 1874; Singer 1993, 1994, 2000). A wider public interest is served when universal principles of basic justice and human rights are followed. This reaches far beyond present forms of system stabilising rules and laws. Relationships between actors start to shift away from instrumentalism that serves the purpose of management and HRM towards social actions directed towards truth, mutual understanding, and democracy.

Stage Six: Universally Applied Justice and Welfare

Stage six starts with an application of well thought out ethical principles. ER/HRM actors are ready to share and debate issues openly and non-defensively with each other. Relationships become less distorted and move away from self-serving managerial goals (Klikauer 2007:55 & 2008:108). These are no longer confined to instrumentalism but instead established in a trustful way on principles concerning respect for the other side (cf. Kantian end in-itself). Respectful, non-distorted, non-deceptive, good-faith, and open discussions are not seen as mere instruments to deceive the other side, but they enable all ER/HRM actors to adopt a reflexive and self-critical approach in ethical decision-making. As such all discourse participants are constantly reviewing their communication so that consistency in the decision making process is being established (Klikauer 2008:231ff.).

Distorted instrumentalism is rejected once ER/HRM actors have started to move towards combined communicative- and social-action under symmetric conditions (Habermas 1990). As a result, asymmetrically distributed power relations incapable of achieving *ideal speech* tends to end (Habermas 1997). Having achieved this, all previous forms of communication based on power and domination can be overcome. While under earlier forms of asymmetrical relationships an actor was able to *make other modes of thoughts impossible*, stage six is directed towards enabling such thoughts rather than disabling them. Once an open, symmetric, and domination-free forum for communication has been established and ER/HRM actors show clear signs of having adopted this approach, open discussions can flourish. Such

discussions can extend beyond what is generally regarded as strict ER issues moving into areas such as universal humanity, the environment, sustainability, and global warming.

Stage Seven: Universal Humanity – a Holistic Perspective

At stage seven, ethical rights extend beyond issues that are immediately useful to ER/HRM and are directed towards humanity as a value in-itself. Rights are applied to a wider context rather than being restricted to humans alone. Ethical awareness also reaches beyond fellow humans. It embraces other forms of life such as animal species and ecological systems regardless of their social utility (Singer 1993, 1994, 2000). The relationship between ER/HRM actors includes relationships directed towards the inclusion of issues related to nature, global warming, environment, plant life, and animals. For that, ER/HRM actors need to develop an awareness of the integrity of the environment and other systems moving towards an understanding of global ethics (Pogge & Horton 2008; Keller 2010). Having read Kantian ethics, Kohlberg himself linked stage six to Kant. At this stage, ER/HRM and the holistic universe assume value *in-themselves* (cf. Kant 1788). These links have to gain in importance if truly global ethics is to be achieved irrespective of their immediate importance for *homo sapiens*. Stage seven is only fulfilled when ER/HRM actors display a capability to engage in ethical issues well beyond the realm of human beings.

Research, Findings, and Discussion

Empirical research has been used to support the normative arguments made initially by Kohlberg and later by others in the field of management studies and HRM (Weber 1990; Linstead, Fulop & Lilley 2004:260-264 & 2009:385-393; Martin 2007:80-81; Trevino & Brown 2008:70; Samson & Daft 2009:179; Klikauer 2010:126-169; Kramar et al. 2011:555; Velasques 2012: 38-45). Their work largely supports the arguments above and positions ER/HRM in Kohlberg's seven levels of morality. The supporting survey was conducted during November 2008 when undergraduate university students were asked the following question:

In International and Comparative ER we find – apart from the state as third actor – two dominant actors. These are a) workers and trade unions and b) management represented by human resource managers. One structure is known as industrial relations while the other has become known as Human Resource Management. Assess the extent to which, generally and globally, the two approaches (human resource management and Industrial Relations) operate ethically by reflecting on Kohlberg's scale.

Respondents were domestic students at an Australian inner-city university enrolled in a subject called *International and Comparative Employment Relations* who had completed the prerequisite of *Managing People at Work* (consisting of 50% HRM and 50% ER) as a general introduction to HRM/ER as part of their *Bachelor of Business and Commerce* (BBC) undergraduate degree. Approximately, 3/5 were employed in none-IR/HRM related positions while 2/5 held IR/HRM positions of mostly between 5 and 15 years in public and private organisations such as AAPT, Ainsworth Game Technology, AMWU, ANZ, APRA, ATO, Barclays Bank, Boral, Citi-Bank, Coles, Commonwealth Bank, Credit Suisse, Customs, Dell Computer, EDS, IKEA, Goldman-Fiedler, Hal Group, Macquarie Group, Mission Australia,

NetX, NSW Police, NTEU, P&O, Qantas, RailCorp, Sungard Software, Westmead Hospital, Woolworths, etc. Students attended a lecture on *Universal Ethics and Human Rights* where Kohlberg's scale was discussed in great detail. This was enhanced through a tutorial exercise. Students also familiarised themselves with the scale through a *Book of Readings* (2008) containing the complete overview of *Kohlberg's Stages of Moral Development* (Linstead, Fulop & Lilley's 2004: 260-264).

During an evaluation of teaching methods, the analysis was then extrapolated from students' examination papers (cf. Weber 1990:692f.). No direct survey was conducted and no laboratory testing situations were used. Instead respondents were asked to make an assessment based on their knowledge of HRM/ER and Kohlberg's scale. Student responses were not multiple-choice answers. Instead, students were asked to justify their choice in an essay-answer. This was a two step process:

- (i) Before answering the question in full detail, students were asked to assign a number (1-7) to two boxes [□]. There was one box [□] for HRM and one box for ER [□]. The number assigned to each box was reflective of Kohlberg's stages (1-7). The linkage of a number to each of the two boxes was based on the previous teachings and their understanding of three issues: a) Kohlberg's model, b) HRM, and c) ER;
- (ii) in a subsequent step, students were asked to write two short essays justifying their choices. One essay was designed to justify their choice on HRM and the second essay was to justify their choice on ER. The answers given to both (HRM and ER) were given in essay format so that students had the opportunity to use an academic format of presenting a discussion on HRM and ER in relation to Kohlberg's scale in order to argue their case.

Hence, the results outlined below have been drawn from a somewhat *'indirect'* survey. This is based on (i) the number they assigned to each of the two boxes [HRM = □ and ER = □]; and (ii) it was assisted through a textual analysis of student responses to substantiate, and when needed, to clarify their initial answers [□] in their two essays. For that, the method applied was that of *second-order form of interpretation*. This was conducted more than one year after the examination had taken place. In a few cases when, for example, students responded with stage '2 to 4' or '4 to 6', three numbers (2,3,4 and 4,5,6) were allocated. In sum, 2nd and 3rd year undergraduate BBC students (HRM/IR) were asked to assess where they thought ER and HRM are located on Kohlberg's scale of moral development and to justify their answers. The results of the textual analysis for ER and HRM are shown in figures 1-4. The first figure shows the result for ER:

Figure 1: Results from the Student Survey for ER

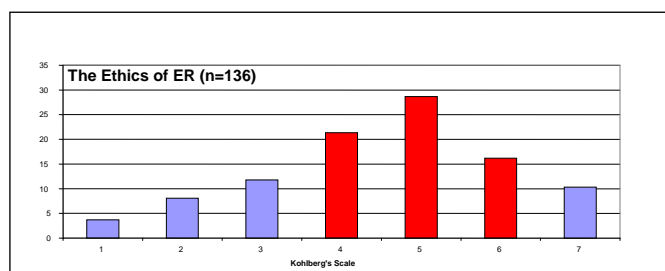


Figure 1 shows that the vast majority of responses (n=136) assigned ER as belonging to stages 4 to 6. Only very few respondents thought that ER was located on Kohlberg's stage 1 (3.7%) or stage 2 (8.1%). However, 10.3% of respondents assigned stage 7 (the highest) to ER. Most students allocated ER at stages 4, 5, and 6. The top-three responses make up 67% of all respondents: stage 4: protecting law and order and maintaining the existing system of official social arrangements; 5: promoting justice and welfare within a wider community, as defined in open and reasonable debate; and 6: defending everyone's right to justice and welfare, universally applied.

Apart from protecting *law and order* (21.3%) most respondents thought that ER's role is to promote *justice and welfare* in business organisations and in the wider community (28.7%) and that ER is based on an open and reasonable dialogue with others. At this stage ER is seen to apply well thought out ethical principles to position ER inside an ethical understanding of commonly accepted norms of a wider community reflecting Hegelian *Sittlichkeit*. ER's morality cannot be based on managerial cost-benefit calculations but as an engagement with the wider community working towards the benefit of the whole. Consequently, ER's ethical behaviour reflects *defending everyone's right to justice and welfare, universally applied*. This is enshrined in the United Nations *Universal Declaration of Human Rights*. In other words, respondents viewed ER as a having a utilitarian (stage 5) and a universal notion (stage 6). Finally, 10.3% of all respondents saw ER as going beyond humanity respecting the cosmos and an integral whole in openness. This contrasts sharply with the findings for HRM as figure 2 outlines:

Figure 2: Results from the Student Survey for HRM

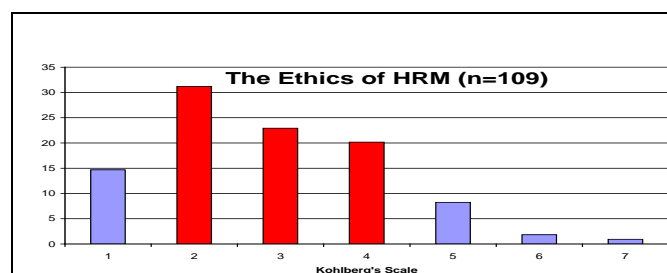


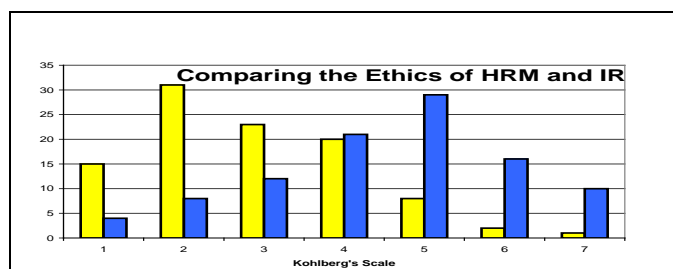
Figure 2 shows that the vast majority of respondents thought that HRM depicts the moral levels of 2 to 4. Of all responses (n=109), 14.7% thought that HRM reflects stage 1, while 8.3% thought HRM corresponded to stage 5. Only 1.9% thought it corresponded to stage 6, and mere 0.9% assigned the highest stage of 7 to HRM. Most students allocated HRM to stages 2 (31.2%), 3 (22.9%), and 4 (20.2%). A total of 74.3% of all respondents named these top-three stages as the ethical location of HRM. In sum, most respondents saw HRM as belonging to the lower three stages (2-4) rather than to higher stages of morality (5-7).

Still about one in seven respondents (14.7%) saw HRM as establishing a prison or concentration camp like regime in which punishment avoidance exists turning humans into *objects of power* (Bauman 1989) exposed to *The Management of Fear* (Monk 1997). Still, the highest number of respondents recorded saw HRM as a system in which *personal benefits* and *rewards triumph* over the *common good*. *Getting a good deal for oneself* is, as it appears, one of the prime motives of HRM at this stage. Slightly more respondents (22.9%) thought that HRM is about conforming to organisational expectations. In other words, more respondents thought that HRM's ethics carries connotations of a Machiavelli-Nietzsche power notion rather than neatly composed Weberian textbooks of technical-bureaucratic systems (Schwartz

1990:8; Jones et al. 2005:43ff.). Gaining the approval of one's superior is the driver behind behaviours that seek to avoid disapproval of those in higher positions in company hierarchy. Morality and ethics at this level are based on receiving praise (e.g. HRM's performance appraisals) and being admired. It enhances the unconscious conversion into *organisation men* (Whyte 1961).

Many respondents (20.2%), being part of *rule-following* and *rule-upholding* that is enshrined in HR policies, also saw HRM's role primarily in protecting *law and order*. It appears as if many respondents also thought that the task of HRM is to protect the corporate order. Only 8.3% of respondents thought that HRM's task is to *promote justice and welfare* (stage 5) inside organisations and possibly in the wider community and that HR managers should engage in an open and reasonable dialogue. Hence, HRM does not appear to be associated with justice, welfare, openness, and Ideal Speech (Habermas 1997). Even fewer thought that the ethical principle of *utilitarianism* (Singer 1993, 1994, 2000) – *servicing the best interest of the great majority* – is the moral obligation of HRM. Hence, the two highest levels of ethical behaviour on Kohlberg's scale (6 & 7) were only favoured by roughly 3% of all respondents. In other words, they didn't view HRM as being reflective of universalism (stage 6) and did not see it as going beyond humanity respecting the cosmos and an integral whole in an openness that extends well beyond humanity. In sharp distinction to HRM's overall assessment as being located at levels 2-4, ER by contrast has been seen as being more reflective of stages 4-6. A comparison of ER and HRM is shown in figure 3:

Figure 3: Results for ER and HRM



The comparison depicted in figure 3 shows the allocation of HRM located at the lower end of Kohlberg's scale of morality (shown in light colour) and that of ER (shown in dark). It appears as if the only overlapping area for ER and HRM was level four on Kohlberg's scale. In other words, the most likely common ground of HRM and ER lies in the area of *protecting law and order*. Thereafter, the morality of HRM trends downwards (1-3), while ER's morality appears to move upward (5-7). The top rating levels allocated to ER and HRM are the level of *getting personal benefits & rewards and a good deal for oneself* for HRM (stage 2 = 31.2%) and *promoting justice and welfare within a wider community, as defined in open and reasonable debate* for ER (stage 5 = 28.7%). In sum, most respondents thought that HRM's prime interest lies in getting a good deal for oneself, perhaps reflecting a core management ethos (Jackall 1988; Magretta 2002; Schrijvers 2004). On the other hand, ER was seen as *promoting justice and welfare within a wider community as defined in open and reasonable debate*. ER is about achieving justice and welfare not only for people at work but also for the wider community. Finally, ER strongly relates to the idea of a fair, open, and reasonable debate (Klikauer 2007 & 2008).

Conclusion

Before drawing an overall conclusion, primarily from the normative argument on ethics and the supportive empirical study, a few limitations of the study need to be outlined. Like any study, the normative argument and support through the empirical study detailed above, incurs a number of limitations: the first limitation comes from the fact that this is a normative study based on the norms of Kohlberg's scale of morality which is used to discuss the norms of ER and the norms of HRM. As such, the study is largely a study of *norm-vs.-norm*. Secondly, the indirect student survey was used as "*supporting*" evidence to underpin the normative argument of the study. It is imperative to remember that the examination of HRM/ER's morality is based on a normative argument, not on an empirical study. This support carries some limitations: a) the supporting evidence comes from respondents, although with industry experience, who were students at a university; b) they were not industry experts from the field of HRM and ER; c) no direct survey was conducted; d) the support comes from the analysis of one group of students in one country at one moment in time; e) it is neither longitudinal nor cross country, nor international. With these important qualifications and limitations, the following conclusion –based largely on the normative arguments outlined above– can be drawn.

Having briefly outlined some key ethical theories of moral philosophies in the form of utilitarianism, Kantian ethics, and virtue ethics including Kohlberg's stages of morality, and having conducted a supportive study on the morality of ER and HRM, the following conclusion can be drawn from the combination of ethical theory and empirical data. This is done, firstly, by reflecting on moral theory including Kohlberg's scale, the empirical investigation, and finally an assessment and discussion of those research findings in the light of the theoretical body presented. The study has shown that morality has been universally applied through Kohlberg's theory reflecting on ethical theories such as utilitarianism, Kantian ethics, and virtue ethics. The link between ER/HRM and ethics concerns ethical philosophy because the behaviour of HRM/ER actors has real consequences and can therefore be judged ethically. ER/HRM actors conduct themselves as mature people that have developed a moral consciousness. The data shows that ER/HRM does not operate at prison- and concentration-camp levels of pure evil and punishment. However, one in seven respondents thought that HRM relies on mechanisms such as *Management by Fear*.

Perhaps not surprisingly, most respondents thought that *getting a good deal for oneself* represents the ethical stage of HRM, while only 8% of respondents thought this is the case for ER. This result clearly differentiates HRM from ER. The former was seen as egoistic while the latter was not. Similarly, conforming to expectations is more relevant to HRM than to ER. However, the greatest overlap has been found to be in the area supporting law and order with an almost equal allocation of preferences. After that, HRM does not appear to keep pace with the ascending scale of ER. In other words, the ethics of HRM remains linked to companies as the prime location of HRM's engagement. HRM appears incapable of transcending beyond the confinements of a company. This restricts HRM's morality. Not surprisingly, HRM's morality does not extend to the social values of utilitarianism: *creating the greatest good for the greatest number of people*. This is much more seen as being part of ER as it reaches far beyond the confinements of companies and corporate life.

This provides some empirical evidence in support of the conclusion because most respondents saw HRM as company based. It restricts ethics to the moral levels of 2 to 4 on Kohlberg's scale. HRM has been shown to be unable to reach higher levels of morality. The ethics

located at these higher levels has been associated with a fully developed moral consciousness that includes not only corporate welfare but also connects well with the wider community and society. HRM has not been seen as reaching beyond the confines of profit-making maxims. In contrast, ER has been shown to be able to reach higher levels of morality associated with a fully developed moral consciousness that reflects Hegel's *Sittlichkeit* (moral life) more than HRM's highly structured existences inside managerial regimes. Perhaps the higher levels achieved by ER are due to its disconnection from the confines of profit-making maxims. In short, it appears as if HRM protects the institution over human beings while ER does the very opposite. As noted by Chomsky's *profit over people* (1999), HRM is linked to the moral confinement of profits while ER has been associated with *people*.

The initial normative definition of HRM as outlined in the introduction –HRM is about *the management of people at work*– denotes two things: a) that HRM's location is '*at work*' signifying HRM's company focus; and b) *the management of people* it is part of management. Hence, HRM is often forced to show its contribution to the overall objectives of management in the form of *The Real Bottom Line* (Magretta 2002:129-140), shareholder-value, profit-maximisation, competitive advantage, organisational outcomes, and ROI: the return of investment. Not surprisingly, a sample of seven HRM textbooks from seven English-speaking countries shows the linkage between HRM and HRM's contribution to competitive advantage, ROI, *The Real Bottom Line* (Magretta 2002:129-140), organisational objectives, performance outcomes, etc. (Beardwell & Claydon 2011:303-304; Belcourt et al. 2011; Grobler et al. 2011:559-560; Jackson et al. 2012; Kramar et al. 2011:418, 420, 471, 507, 640, 646 (ROI) & competitive advantage (26-44); Macky 2008:13-15 & 27; Patrick et al 2011:36, 68-69, 73-77; Schwind et al. 2011:175-176, 430-431).

Given that, an initial and overall conclusion might indicate that HRM sees its *moral duty* (Kant) linked to the objectives outlined above. These are parameters largely set by management and corporate policies designed to enhance competitive advantages, shareholder-value, profit-maximisation, and *The Real Bottom Line* (Magretta 2002:129-140). To achieve that, HRM's task is to link *intrinsic* and *extrinsic* (Herzberg et al. 1959; Herzberg 1966) *personal payoffs* (Kohlberg 1981 & 1984) to performance management and organisational performance (McGregor 1960 & 2006). HRM achieves this through a raft of measures ranging from performance management, individual bonuses, performance related pay, and the *Balanced Scorecard* (Kaplan and Norton 1992, 1993, 2004).

ER, on the other hand, has the freedom of not being restricted to cost-benefit and profit-maximisation and therefore has been seen as living up to the ethics of utilitarianism. For HRM, it appears as if utilitarian ethics is largely out of reach. Due of its structural confinements, it can't apply utilitarianism universally. For ER however, the ethical values of society based utilitarianism can move upwards to reflect *universalism* because it can apply both to society and indeed globally. In the final assessment of ER and HRM, ER corresponds to universal ethics and to utilitarianism. Achieving the utilitarian principle of the *Greatest Happiness for the Greatest Number of People* is seen as an inherent part of ER but not for HRM.

In conclusion, the ethics of HRM is seen to be limited to *getting a good deal for oneself, conforming to standards, and law and order*. It is the final level at which HRM is no longer seen to be able to achieve higher ethical levels. For ER things are different. For the ethics of ER *law and order* is merely seen as a starting point that it has in common with HRM. However, ER represents the ethics of justice and beyond. It has been seen as carrying strong

connotations to the *promotion of justice and welfare within a wider community*. This hasn't been so for HRM. In short, the association between justice/welfare and HRM is weak while it is strong for ER (one in three). The second issue that defines the ethics of justice and welfare is communication. Again, ER differs vastly from HRM. Engaging in an *open and reasonable debate* is strongly associated with ER.

At the next level (6) these ethical principles are universally applied. Again, ER appears to outperform HRM. ER reflects much more what has become to be known as *Global Ethics* than HRM. When it comes to *Global Ethics*, ER, rather than HRM, can be a carrier for such an ethical position. Universalism and Global Ethics are not associated with HRM. At the final stage of morality ER has a closer association with the ultimate ethical goal of supporting life beyond human beings. Again, ER outperforms HRM by a margin of 11:1. In short, pressing issues such as global warming and sustainability are better suited to be dealt with in the realm of ER rather than in HRM. In sum, if both –ER and HRM– seek to reflect modern ethics, then Human Resource Management has a much longer way to go compared to employment relations.

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The Rhetoric versus the Reality: New Zealand's Experience Rating

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Abstract

There are two views of New Zealand's Accident Compensation (ACC) scheme; the first view is that the scheme is a social programme and the second is that it is an insurance-based programme which, for historical reasons, happens to be run by the state. The later, insurance-based view, leads in particular to the adoption of experience rating in the belief that this will promote fairness and safety. However, there are lessons from New Zealand's past that suggest that experience rating is not only complicated and is likely to be expensive to administer and also have little success in achieving the objective of safety in the workplace. The introduction of experience rating in New Zealand not only forces a re-examination of the insurance-based direction imposed on ACC in recent years but it also provides lessons for other countries contemplating introducing similar experience rating systems.

Introduction

Driven by a desire to completely change the previous fault-based system for workers' compensation and create a fairer system for the victims and their families, New Zealand introduced a universal no fault, comprehensive accident compensation scheme in 1974. Not only was this a major social reform, but it also represented a radical shift in thinking. A Royal Commission in 1967, chaired by Sir Owen Woodhouse, envisaged a social contract in which New Zealanders surrendered the right to sue for personal injury but received more certain, equitable and adequate compensation, rehabilitation and medical care, whether the injury occurred at work or at home and whether or not the fault could be established. To fund this scheme, Sir Owen proposed a standard flat levy rather than using the risk-related levies that had been the practice under market-based workers compensation schemes (Royal Commission of Inquiry, 1967).

It was not unexpected that this radically new approach to compensation for injury was controversial, yet most of the recommendations in the Woodhouse Report were given effect in 1974 with the passage of the Accident Compensation Act, and a new a Crown Entity, the Accident Compensation Corporation (ACC)¹ was charged with the administration of the scheme. Unfortunately, the ACC Act also carried over features of the previous workers compensation scheme, including the cumbersome system of industrial differential levies based on risk for work accidents and a provision for rebates and penalties.²

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From the beginning, there was tension between those who viewed ACC as an insurance scheme (which happens to be currently run by the state) and those who viewed ACC as a social programme, rather like health and education. On the one side of the argument lies the efficiencies of the free market and on the other, the advantages of a state-run and publically funded programme³. New Zealand's experiments with experience rating since the 1970s, including the latest version introduced in 2011, reflect this tension.

This paper reviews the past history and examines the efficacy of introducing experience rating within a changing working environment, and concludes that the case for the 2011 experience rating scheme is thin. Moreover, the emphasis on private insurance methods, including experience rating, is likely to facilitate the reintroduction of private insurers and undermine the advantages of New Zealand's unique workers' compensation approach. In order to understand the context in which New Zealand's experience rating scheme was recently introduced, the different views of ACC are first examined.

The two views of ACC

ACC is based on five guiding principles known as the Woodhouse principles as set out in the Royal Commission of Inquiry, 'Compensation for Personal Injury in New Zealand' (see section entitled: *Community Responsibility*), it states that:

In the national interest, and as a matter of national obligation, the community must protect all citizens (including the self-employed) and the housewives who sustain them, from the burden of sudden individual losses when their ability to contribute to the general welfare by their work has been interrupted by physical incapacity (Royal Commission of Inquiry, 1967).

The five guiding principles are as follows (ibid: 177-178):

1. *Comprehensive entitlement*. "All injured persons should receive compensation from any community financed scheme on the same uniform method of assessment, regardless of the causes which gave rise to their injuries."
2. *Complete rehabilitation*. "The scheme must be deliberately organised to urge forward the physical and vocational recovery of these citizens while at the same time providing a real measure of money compensation for their losses."
3. *Real compensation*. "Real compensation demands for the whole period of incapacity, the provision of income-related benefits for lost income and recognition of the plain fact that any permanent bodily impairment is a loss in itself, regardless of its effect on earning capacity."
4. *Administrative efficiency*. "The achievement of the system will be eroded to the extent that its benefits are delayed, or are inconsistently assessed, or the system itself is administered by methods that are economically wasteful."

While the Woodhouse principles are widely supported, the debate over whether ACC should be an insurance scheme has continued since 1974. On one side of the debate, the ACC is characterised as a public institution implementing social (collective) policy and, thus, rightly a part of government as both a political as well as economic entity. On the other side, the ACC is seen as a government agency attempting to provide insurance, much as other privately held insurance companies that operate as individual corporate actors seeking to make profits and responsive to market incentives. Moreover, although few participants in the debate over the future of ACC would accept political labels as either 'socialists' or 'neo-liberals', the battle is, nonetheless, divided along ideological lines. Disagreements over the role of government, the role of private insurance methods, and the benefits of market

competition lie at the heart of the debate. An outline of the differing views and their implications are set out in Table 1.

Table 1: Two competing views of ACC

ACC viewed as social programme	ACC viewed as private insurance scheme
<ul style="list-style-type: none"> Based on the “social good” model 	<ul style="list-style-type: none"> Based on corporate model
<ul style="list-style-type: none"> Operated in the public sector 	<ul style="list-style-type: none"> Operated by the state but run largely by the private sector
<ul style="list-style-type: none"> Broad coverage to incorporate emerging risks 	<ul style="list-style-type: none"> Coverage limited to known and accepted risks
<ul style="list-style-type: none"> Compensation based on principle of collective responsibility 	<ul style="list-style-type: none"> Compensation based on principles of contract law and agreed assumption of risk
<ul style="list-style-type: none"> ACC is a neutral arbiter representing the interests community over the interested of the employee or employer 	<ul style="list-style-type: none"> ACC, as an insurance company, is responsive to its funders (the employers) and responsible to them for the provision of effective compensation at minimal cost
<ul style="list-style-type: none"> ACC can be financed on “Pay-as-you-go basis” 	<ul style="list-style-type: none"> ACC must be “fully-funded” as is required for private insurance
<ul style="list-style-type: none"> Fairness requires that all employers pay similar levies (flat-rate) 	<ul style="list-style-type: none"> Fairness requires that levies be determined on the basis of risk (differential levies)
<ul style="list-style-type: none"> Mechanisms to achieve safety objectives (prevention) are outside of the levy system 	<ul style="list-style-type: none"> Levies are used to achieve safety objectives (experience rating)

While the ACC is often referred to as ‘social insurance’, it is also clearly part of a social safety net, as Ian Campbell (1996: 82-83) notes:

Describing the scheme as being one of insurance as opposed to welfare is rather a matter of semantics. A forthright comment on the use of the word “insurance” comes from Vennell [1993] who stated: ... it is largely fallacious to describe the scheme as an insurance scheme for unlike true ‘insurance’, the ‘insured’ cannot negotiate the terms of the policy including the extent of the cover and the premiums to be paid.

On one hand, underlying Sir Owen’s principle of community responsibility is the belief that, in modern society, accidents are an inevitable consequence of interdependent social and economic activity from which all benefit and, therefore, the risk of injury by accident should be shared by everyone in the community. Those who view the ACC as a social programme see the use of differential levies and experience rating as a retreat from the Woodhouse principle of community responsibility (Oliphant, 2004; Gaskins, 2008). On the other hand, in market-based insurance schemes, it is the common law that deals with issues raised by accidents in tort, and it is generally accepted that a loss or injury caused by accident lies with the individual or their insurance company, unless someone else can be shown to have been at fault (Wilkinson, 2003). Pricing based on risk is also a key feature of market-based insurance schemes. Typically, in workers’ compensation schemes, risk is taken into account via the development of differential levies based on industrial grouping. Under ‘experience rating’, these levies may be modified for individual employers by their accident experience. In theory, experience rating provides an economic incentive to prevent accidents. While experience rating does not re-introduce the fault principle into the payment of compensation for personal injury, it may raise issues of fault for the assessment of employer levies and associated litigation.

Funding workers' compensation in New Zealand

The different components of the complex funding arrangements for ACC are set out in table 2, showing the five different accounts and what they cover. It should be noted that, for purposes of the experience rating of employers, compensation for people injured at work is funded out of the Work Account.

Table 2: The Five ACC Accounts

ACC account	Who funds it?	What is covered
Work (workers' compensation)	Employers, based on the wages or salaries they pay their employees in a financial year (called 'liable earnings'). Self-employed people and private domestic workers – based on their earnings.	Work-related injuries affecting employees, self-employed people and private domestic workers (excluding most motor vehicle injuries). The continuing cost of work-related injuries that happened before 1 July 1999, and non-work related injuries to earners that happened before 1 July 1992.
Earners	Employees, self-employed people and private domestic workers, based on earnings.	Non-work injuries to people in the paid workforce when they are at home or during sport and recreation
Motor vehicle	Motor vehicle owners, users and motorists through a levy collected from petrol sales (the petrol levy), and a levy collected when licensing a vehicle (the licence fee levy).	Injuries involving moving motor vehicles on public roads.
Non earners	The government.	Injuries suffered by people not in the paid workforce (such as students, beneficiaries, children and retired people).
Treatment injury	Earners (through the Earners' Account) and a government contribution for non earners.	Injuries caused by medical treatment.

Source: ACC, 2011a

The ACC sets the annual levies necessary for each separate account and, until recently, it has not been required to meet the strict actuarial funding standards set for private insurance companies. Nevertheless, there has always been a buffer of reserves. The value of these reserves (compared to annual claims) has fluctuated according to changes in views of the degree of funding necessary (St. John, 2010). In contrast, private insurance companies are “fully-funded” in that they must maintain sufficient reserves to meet future liabilities.

Over the past decade, the rules regarding funding have changed on several occasions. In 2001, a Labour Coalition Government reversed the privatisation of the work account undertaken by the previous National Government in 1998. The new legislation, entitled the 'Injury Prevention, Rehabilitation, and Compensation Act 2001' (also known as the Accident Compensation Act, 2001) removed the role of private insurers. It did, however, require ACC to be fully-funded by 2014. This meant that ACC had to charge levies which would meet current and future costs of claims by 2014, and was to have sufficient assets to meet the costs of all pre-1999 claims. National was elected in 2008 and extended the dead-line by which ACC had to be 'fully funded' to 2019. Putting ACC on fully-funded basis is also consistent with the 2011 National Government election manifesto to privatise the workers' compensation part of the ACC and open it up to competition.

All employers and self-employed people pay levies into the ACC Work Account to cover injuries that occur at work. From its inception, the ACC has used a risk-based classification system for the Work Account whereby business activities are grouped so that the costs of work injuries are distributed among those industries with similar characteristics.⁴ Employers are placed in the classification units (CU) and then the CUs are combined into 'levy risk groups' which are then used to estimate for each group the risks and costs of future injury claims. Employers may have several CUs but individuals (the self-employed) may only have one. The ACC sets the levy rate for each risk group by comparing costs of previous claims with total earnings within that activity group. In the 2011/12 year, there are 143 risk groups covering 536 CUs. The levy for each risk group is determined on the basis of the number and costs of injury claims in that group in the past year and the number and on going costs of injuries predicted for the coming year. The levies charged to the individual employer are the industry-based work levy.

The ACC work levy (that is, the amount which the employer pays for workers' compensation) is calculated as a percentage of an employer's 'liable earnings'.⁵ That is, the levies paid are based on employers' payroll (or the earnings in the case of the self-employed) and on the injury-related risks associated with the industries in which they work. Without experience rating, the levy rate is the same for all employers within each industry group regardless of individual employer safety record. Table 3 provides examples of how a combination of the risk rated levy, the number of employees and their average wage determine the levy actually paid. It is interesting to note that, from the examples, the way in which work levies are determined bears no relationship to the status of health and safety in the workplace.

Table 3: Examples of how work levies are determined- 2011

Example: High Work Levy Rate

An employer paying an annual average wage of \$40,000 and a work levy rate of \$6.91 per \$100 liable earnings would meet the \$10,000 experience rating threshold with around 3-4 employees

Example: Average Work Levy Rate

An employer paying an annual average wage of \$40,000 and a work levy rate of \$1.15 per \$100 liable earnings would meet the \$10,000 experience rating threshold with around 22 employees

Example: Low Work Levy Rate

An employer paying an annual average wage of \$40,000 and a work levy rate of \$0.25 per \$100 liable earnings would meet the \$10,000 experience rating threshold with around 100 employees

Source: Interview with ACC official

With regard to the other accounts, in 2011, the Earners Account is funded by a flat rate levy on the income earned by workers, while the Non-Earners, the Motor Vehicle and the Treatment Accounts are funded via levies and indirect taxes. That is, Motor Vehicle Account is funded by a petrol levy and motor vehicle registration fee and the Treatment Account is funded by drawing on both the Earners and Non-earners Accounts. Earners (those who earn sufficient income to pay income taxes) receive compensation for injury resulting from accidents, such as at rugby in the weekend, similar to that received by a worker injured at work. The difference, however, is that if it is a work-related injury, the first week's compensation is paid by the employer, while if it is not work-related the worker may lose the first week's pay. Illness is not covered by the ACC except for those that are caused by recognised occupational disease (for example, an asbestos-related disease). Psychological or mental illness is also not covered unless found to be work-related or caused by certain criminal acts, such as sexual assault.

ACC programmes

The Experience Rating Programme sits across a suite of other programmes, namely the Partnership Programme, Workplace Safety Management Practices, Workplace Safety Discounts, and Workplace Safety Evaluation, in which each is designed to accommodate the different sizes and types of businesses.

The Partnership Programme (also known as the Accredited Employers Programme or AEP), is similar to many other overseas self-funding schemes and is not a programme intended to promote safety but rather to reduce costs. More precisely, the Partnership Programme is characterised as a “social partnership” between ACC, employers and employees⁶. By 2007, it had provided coverage for approximately 316,358 full time employees, or around 25% of the full-time workforce. While any employer can apply for entry to the ACC Partnership Programme, the programme was developed and is considered to be suitable for very large employers whose ACC levies exceed \$250,000 per year.⁷ The ACC Partnership Programme also allows accredited employers direct input into managing claims and in reducing overall costs. That is, once employers are accredited, they administer their own workers’ compensation by managing claims and *ipso facto* claim costs. The ACC explains that: “both employers and employees benefit from effective injury prevention and management. Well managed claims reduce work-related injury costs, including ACC levies, and promote the early and safe return to work of employees after an injury” (ACC, 2010a).

Under the Partnership Programme, there are two options for managing claims: Partnership Discount Programme and Full-Self Cover Plan. In 2007, there were 36 employer groups on the Partnership Discount Programme and 118 employer groups in the Full Self-Cover Plan. In the Partnership Discount Plan, the employer assumes responsibility for the management and costs of their employees’ work-related injuries and illnesses for a nominated claims management period. At the end of the selected claims management period, if an injured employee is still receiving entitlements, financial and management responsibility for the claim will be transferred to ACC. Some residual liability may exist in respect of gradual process claims.

In the second option, the Full-Self Cover Plan, the employer assumes responsibility for the management and costs of employees’ work-related injuries and illnesses for the life of the claim, limited to the stop loss level chosen by the employer. The stop loss limit can range between 160% and 250% of the ‘risk’. At the end of the selected claims management period, if an injured employee is still receiving entitlements, financial and management responsibility for the claim will be transferred to ACC at a calculated price. Under this programme, the employers’ levies can be reduced up to as much as 90%.

The Workplace Safety Management Practices (ACC, 2011) is a voluntary programme aimed at medium and large employers and in 2007, there were 1,823 organisations involved with the Workplace Safety Management Practices programme. Employers in the programme have an average of 106 full-time equivalent employees (ibid). If the employer wishes to participate in the Workplace Safety Management Practices programme, they undertake a workplace self-assessment using an audit tool designed by the ACC. This audit is then followed by a workplace audit that must be undertaken by an independent health and safety auditor approved by ACC. Employers who meet the standards required by the programme will receive 10% to 20% discounts on their ACC Workplace Cover levy, depending on their level of compliance with specified requirements for workplace safety.

The other voluntary program is the Workplace Safety Discounts Programme and is designed for the self-employed and small businesses in a number of high risk industries (agriculture, construction, fishing, forestry, motor trades, road freight, and waste management). For this programme, small businesses are also defined as those that have a total annual payroll of \$450,000 or less, or have 10 or less full-time employees. To qualify for the discount (10% off the work cover levy), the small business or self-employed person must be engaged in work that falls under one of the specified classification units and have attended a free, industry-specific training course, unless they can prove that they already have the appropriate experience. The employer then undertakes a self-assessment which is submitted with the application to ACC. In some cases, ACC may require an independent audit to be carried out.

Under the Workplace Safety Evaluation Programme, the ACC addresses the issue of the 'high risk' employer. As outlined previously, ACC levies have been set on an industry or activity basis and employers in the same industry have paid the same rate. That is, if one employer within an industry sector has a significantly higher number of workplace injuries, the costs of those injuries are carried by all of the employers in that industry regardless of whether other employers have had any injuries. However, if one employer continues to have a high number of workplace injuries year after year, this indicates that there may be an issue of work safety or health that needs to be addressed. More importantly, a return to experience rating in 2011 will see individual employer levies adjusted in an attempt to reflect safety performance, as discussed below.

Experience Rating; the experience in New Zealand 1974 – 1990s

The original 1974 ACC legislation allowed for experience rating in the form of a possible 50% rebate or 100% penalty on the levy rate. At that time, the employer levy also covered non-work accidents, but it was only the work-related part that was experience-rated (St. John, 2010). Thus, the distinction between work and non-work accidents was important, even though the unified scheme treated the injured employer the same for both. A study undertaken by St John (1981) investigated how such a scheme might have been introduced in a statistically valid way. The freezing industry was used as a suitable exemplar for experience rating because it was an industry with a high accident rate and a large number of similar competing firms. Since claims data is not a sound basis for determining safety, (as, for example, fatalities could be cheaper than long-term accidents, among other problems), it was fortuitous that there was good accident frequency data from a special report *The Nordmeyer Report* on accidents in 1976-7 (Nordmeyer, 1977). Applying the principle that accidents are random and probabilities conform approximately to a Poisson distribution, accident frequency (both for all accidents and for those injured workers requiring compensation over seven days) was used to determine whether any one firm was statistically better than the industry average. The actual outcome for a firm was compared to the mean/average for the industry. If the experience was outside 95% confidence limits then it could be assumed that the firm was better or worse in a statistical sense.

The study found that while statistical validity could be established and a rate-modification formula worked out, the critical point was that the outcome was depended upon which frequency was used. Moreover, there was an arbitrary and often large variation in the rebate or penalty calculated in these two ways, when theory would suggest they should be of the same order. Another issue was that even within this relatively homogenous industry, firms were not strictly comparable. For example, firms differed considerably in the nature of the work undertaken and the risks of that work. The conclusion, therefore, was that any system was bound to be arbitrary and although it may mitigate problems of classification, such a system would have little to do with safety. Moreover, if it could not be made to work effectively in the freezing industry, which had a large number of reasonably similar firms,

rigorous data on hours worked and a high accident rate, it was unlikely to work anywhere (St. John, 1981).

In spite of these issues, there was a timid attempt to pay ‘good firms’ a rebate in the early 1980s in order to make the experience rating provision in the 1974 Act operative. While the basis was accident numbers and not cost of claims, the frequency measure was not based on hours worked but on the wage bill and there was no attempt to tailor the rebate, which was a flat, taxable 12.5% of levies. The reward was based on the previous three years’ experience and, thus, well divorced from experience. Ironically, in November 1980, Air New Zealand was awarded a rebate after experiencing one of the world’s worst air disasters in the Antarctic in November 1979, in which 237 passengers and 20 flight crew were killed when Air New Zealand plane crashed into the side of Mt Erebus. Of course, none of the passengers who lost their lives became a cost allocated to Air NZ because they were not employees of the firm, highlighting yet another problem with experience rating. Other recipients were hardly high risk, for example, government departments, education boards and the Public Trust Office, and the reward was unlikely to have anything to do with safety. One of the clear downsides was that in order to give rebates to ‘good firms’ and unless penalties were also levied, the cost would cause a rise in the average levy rate. The scheme was dropped after a few years without a reason given (Campbell, 1996).

A form of experience rating involving bonuses or penalties for some employers was again attempted in the 1990s. The government had described evidence for experience rating ‘at best equivocal’, yet argued that it could be justified on equity grounds because it “overcomes the problems of broad industry classifications” (Birch, 1991). The scheme was not based on accident frequency but on claims experience, including lump sum payments and death benefits. Costs for injuries arising from gradual process or industrial diseases were also included (ACC, 1992).

As with the previous attempt to introduce experience rating, there were also problems with the 1990s’ experiment. For example, in spite of the fact that most employers qualified for a rebate, Campbell (1996) argues that no statistical significance could be attached to being claim-free for most of these firms as they were too small. Moreover, firms located in declining hazardous industries, such as the freezing industry, often experienced a sharp rise in levies that were quite independent of their safety record (St. John, 1999). . The 1990s was also a time of rapid and significant industrial and labour market restructuring. Therefore, under the ‘pay-as-you-go’ levy setting, each industrial class must be levied sufficient to meet all the accident costs paid for that year regardless of when the accident occurred and regardless of the problems associated with times of rapid change. Campbell (1996) cites ACC claiming large penalties levied on the Fire Service and the Post Office may have caused them to take action to reduce claims costs. However, Campbell also concludes that, in large part with PAYG levies, experience rating was more about adjusting for different activities within broad-based classifications.

The 2011 Experience Rating Framework

Against a backdrop of controversial levy reforms of the ACC driven by the National Government’s view that the agency was under financial pressure and their desire to privatise workers’ compensation, the ACC created an experience rating framework in 2011 in which the objectives are:

- to provide a financial incentive to prevent injuries;
- to encourage appropriate return-to-work programmes; and
- to make levies fairer for businesses, by ensuring that low-risk employers do not subsidise high-risk employers.

The experience rating framework consists of two parts: a) industry risk groups; and b) two new performance pricing programmes, as outlined in Table 3. Experience Rating Programme is designed primarily for large businesses with an annual levy of \$10,000 or more and is intended to recognise and reward effective workplace safety practices and return-to-work programmes. The No-Claims Discount Programme is designed for small employers (a no-claims discount or a high-claims loading) in which small business employers and self-employed will have a no-claims discount or a high claims loading.

The ACC will assign employers who qualify for the Experience Rating Programme to a group with similar industrial activities and similar injury risks (the Levy Risk Group). The grouping permits the costs of work injuries to be distributed among employers with a similar risk of injuries and, for the purposes of experience rating, for the comparison of the employer's claims experience. The ACC will then develop a claims history for each employer which records the number of weekly compensation days, the number of fatal claims, and the number of claims with medical costs of \$500.00 or more. If one employer's claim experience "compares favourably with others in its Levy Risk Group, its levy may be discounted" (ACC, 2012). Conversely, if the comparison is unfavourable, then the employer's levy may receive a loading. The maximum modification of the levy is plus or minus 50% of the annual work levy.

In the No-Claim Discount Programme designed for small employers, employers who qualify could receive a 10% no-claims discount, a 10% high-claims loading or no change to the current portion of their annual work levy depending on their claims history. Under this scheme, an employer receives a 10% discount in the work levy rate if no weekly compensation days are paid over the experience period, and a 10% increase if they have claimed more than 70 weekly compensation days or have a fatal accident. If the employer claims between one and 70 weekly compensation days, then there is no change in the work levy rate. The no-claims system is weighted towards a rebate, with most small employers, as expected, having a nil accident record in the period. This implies a loading on the average work levy.

Table 4: 2011 Experience rating and No-Claims Discount Programme

	Experience-Rating Programme	No-claims discount programme
<i>Annual Work levy</i>	\$10,000 or more per annum for each of the three years in the experience period.	Less than \$10,000 per annum for all or any of the three years in the experience period
<i>Experience period (based on claims history)</i>	3 years	
<i>Qualifying claims</i>	<ul style="list-style-type: none"> ● number of weekly compensation days paid ● number of claims with medical costs > than \$500 ● any fatal claim 	<ul style="list-style-type: none"> ● number of weekly compensation days paid ● any fatal claim
<i>Maximum possible loading/ discount</i>	The maximum modification up to +/- 50% of the business's standard industry levy rate.	The maximum discount or loading will be +/- 10% of the business's standard industry levy rate.
<i>Based on individual performance comparative to industry peers</i>	Yes	No
<i>Formula</i>	Modification comprises: <ul style="list-style-type: none"> ● Industry size modification ● experience rating modification (weekly compensation days paid, 	<ul style="list-style-type: none"> ● 'no claims discount' of 10% if no weekly compensation or fatal injury claims were made over the experience period.

	and number of claims with medical costs greater than \$500, and fatal claims).	<ul style="list-style-type: none"> ● no change to levy if business has generated between one and 70 weekly compensation days paid ● a 10% loading will be applied if the business has generated more than 70 weekly compensation days paid or any fatal claim
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Source: ACC, (2011b; 2012)

It is anticipated that experience rating will only apply to 1.2% of employers while 49% will be in the “no claims discount” programme (see Table 4). In terms of coverage, employers now participating in the Partnership Programme and those included in the Experience Rating programme represent only 1 to 2% of employers but employ about half of all New Zealand workers. The only businesses which are to be exempt from Experience Rating or No Claims Discount are those businesses whose liable earnings are less than \$26,520 (as of 2010/11 period).

Table 5 Coverage in incentive programmes

Type of employer	Incentive Programme	Number of employers	Percentage of employers	Percentage of Earnings
ACC Partnership	Accredited Employer Programme	136	0.02	20%
Employers:				
• Large	Experience Rating	5,050	1%	31%
• Small	No-claims discount	110,500	20%	31%
Non-Paye shareholder, employees, and self employed	No-claims discount	126,000	23%	8%
Exempt Group	No incentive programme	315,000	56%	10%

Source: ACC (2010b).

The desire to ensure that an employer’s accident history was compiled fairly and then compared with similar employers has resulted in the development of complex formulae, as illustrated by the extract in the appendix from the Accident Compensation Experience Rating Regulations (NZ Legislation, 2011). The type of industrial activity and the size of the business (calculated in terms of earnings) are taken into account as well as the nature of the event. In addition, claims “resulting from injuries resulting from adverse events” (ibid: 24) or those for occupational hearing loss or injury due to exposure to asbestos will *not* be considered as part of an employer’s claim history. The Minister for the ACC is responsible for determining and declaring when an “adverse event” had occurred, for example, the February 22 2011 earthquake in Christchurch was declared an adverse effect.

The calculation for experience rating levies in the 2011 is based on a measure of compensatable days per total earnings, not hours worked, and so is not a true measure of accident frequency. While the numbers of deaths that involve medical costs of more than \$500 are included as claims in order that the pitfalls of relying on just compensational days are avoided, the decisions around how to count accidents is inevitably arbitrary. For example, the medical cost of the claim may require information over a long period of time. The number of compensatable days depends not just on the severity of the

injury but the ability of the injured worker to return to work in either full or limited capacity (Quinlan, Bohle and Lamm, .2010). If the employer is unwilling or unable to have a partially disabled worker return to work, then rehabilitation will become more difficult. These calculations, however, rely on adequate data being available, and as with the 1970s-1980s experience rating scheme, there are issues around the reliability and rigour of the injury data used as the basis of establishing the experience rating levies. Part of the reason for the 2011 scheme is to encourage a rapid rehabilitation of workers and their return to work. The narrow focus of experience rating on work injuries, however, provides no incentive when an injury is non-work related.

Two central sources of work-related injury data in New Zealand are compiled by the Department of Labour (DoL) and ACC in which both agencies have a statutory duty to collect, analyse and summarise injury data as part of their annual reporting. The DoL compiles occupational injury datasets based only on notifications of serious harm as defined under the Health and Safety and Employment Act, 1992. The injuries listed by the DoL are primarily those that have been brought to the attention of the DoL and the datasets, therefore, represent at best regulatory investigations. The ACC together with Statistics New Zealand mainly generate claims data for the purposes of administering claims and managing rehabilitation resources. An added complication is the fact that injury definitions and categories within the government agencies' databases have changed over time. Furthermore, the latest data publically available on the ACC website dates from 2007- 2008 (the year the National Coalition Government was elected), and the national census (which provides valuable background data) was cancelled in 2011 following the Christchurch earthquake in 2010 and 2011. Thus, given that government databases are incompatible and inconsistent within and across departments and are not current, any comprehensive analysis is difficult if not impossible.

Also, injury data depicted as compensation days are unreliable as they do not represent the true numbers of work-related injuries or fatalities. The main reasons are: a problem of under-reporting, not all workers are eligible for compensation (e.g. self-employed workers) and some injuries are either not covered or it is difficult to establish a casual link between the injury and a work activity (Quinlan et al., 2010). This may be a particular problem in New Zealand where the employer (in order to lessen the number of work-related claims) and/or the employee may attribute a work-related injury to a non-work activity. In most cases, the worker would have little incentive to challenge the classification of the injury if the employer paid the first week's disability, and it would be difficult for the ACC to know that the misreporting had occurred. In this scenario, the worker would be compensated from the Earners' Account and, consequently, the data for rate of injuries in both accounts may be wrong.

Furthermore, workers in precarious employment often under report work-related injuries because they are either concerned about their continued employment or they have difficulty in pinpointing the exact time and cause of the injury because of the nature of their jobs (ibid). The pitfalls of using government injury and illness statistics as a basis for definitive conclusions is clearly illustrated in Mayhew and Quinlan's (2000) study of workers in the clothing, textile and footwear industry. Their study shows that workers in industries with a high incidence of precarious employment are likely to be under represented in the workers' compensation claims and injury or illness data, even though they may be experiencing similarly high levels of injury and illness as so-called 'high-risk' industries. Given the absence of data on occupational injury and illness rates in New Zealand, it is clear that injury rates are considerably underestimated and present an inaccurate picture regarding the safety at work. Arguably, ACC injury claims data can only be used to indicate possible trends in certain sectors or work activities as the difficulty is the imprecise nature of the datasets. The problem is also in getting the formula's balance right, in that enough employers receive penalties and bonuses that are significantly large enough to have an impact on the way they manage OHS, and that the penalties and bonuses more or less balance out so that ACC's account-balance is on target (Krajl, 1994).

In summary, perhaps one lesson to be learnt from the past application of experience rating is that the correct setting of the levy, while desirable if experience rating is to have some connection to safe behaviour, it is nonetheless a difficult exercise (St.John, 2010). In all the experience rating schemes since the 1980s, the setting of levies to reflect accident experience accurately is fraught with difficulties, given changing industrial structure and the degree to which levies were constantly adjusted to reflect changing attitudes around the need to fund or run the scheme as pay-as-you go and the general inaccuracy of the injury data used as the basis of setting the annual levies. Whether or not all these factors make experience rating unworkable is open to conjecture. However, these are not the only issues and there are also a number of fundamental questions that will be examined in the next section.

Questions and challenges

The introduction of New Zealand's latest experience rating programme raises a number of questions. The first obvious question is why was the recent form of experience rating introduced into New Zealand, given the previous evidence from both New Zealand and overseas that experience rating provides little incentive for employers to improve safety (Campbell, 1996). That is to say, the evidence that experience rating leads to better prevention and, hence, fewer *injuries* (as distinct from fewer *claims*) is mixed. As discussed above, while experience rating creates incentives of some kind, it creates perverse incentives to distort claims reporting and as argued, the experience rating system, retrospectively, rewards employers' management of claims, possibly at the expense of genuine efforts to prevent illness and injury at work (Thomason and Pozzebon, 2002; Harcourt, Lam and Harcourt, 2007). The answer to this question, therefore, may lie with politics of workers' compensation rather than prevention or financial benefits. The current government is determined to privatise a number of state-owned enterprises and/or to open government agencies, such as ACC's workers' compensation, to direct competition with private sector providers. Introducing experience rating has been part of the process of getting New Zealand's workers' compensation ready to be opened up to private insurers in 2012, thus transforming the workers' compensation part of ACC into a more insurance-based model.

The second question is whether experience rating will improve New Zealand's occupational injury rate? The number of work-related injuries and illnesses in New Zealand continues to be high compared to other OECD countries and the rate of fatalities has remained relatively static until recently when it spiked as a result of the Pike River Coal Mine explosion in which 29 miners died. Similar jurisdictions, such as Victoria and Queensland, have half the rate of occupational fatalities compared to New Zealand (see table 6). In 2007/8, 285,400 (out of a workforce of 2,26 million) New Zealand workers suffered an injury at work (StatsNZ, 2011). Of these, 37,700 people were injured severely enough to be off work for more than one week. In the same period, 119 people died as result of a work-related injury⁸ (ibid). It has, therefore, been tempting to look for easy answers to improve this record, and experience rating is one such intuitively appealing option. Furthermore, as studies have shown overseas, determining the effect of experience rating on the accident and disease rate will be difficult to ascertain (Ruser, 1991; Lippel et al., 2011). The challenge is made even more difficult in New Zealand, given the potential for experience rating to affect how injuries are classified, as work-related or not, which in turn will skew the work-related injury data. That is, experience rating adjustments are calculated on the basis of the number of workers' compensation claims and workers may be encouraged not to report injuries or to report the injury as the result of a non-work accident.

Table 6: Injuries resulting in Fatalities and Lost Time

Country	Fatalities	Fatalities Rate per 100,000 workers	Accident Rate per 100,000 workers
Australia	275	3.2	2434
New Zealand	61	3.5	2699
Norway	72	3.2	2446
Denmark	90	3.4	2561
China	73615	10.5	8028
Spain	1177	8.9	6803
Sweden	77	1.9	1469
United Kingdom	225	0.8	632
United States	6821	5.2	3959

Note: An 'accident' is counted if it leads to three days' absence from work.

Source: Queensland Department of Employment and Industrial Relations, 2006; Hamalainen, Takala and Saarela, 2007.

The third question is how will experience rating be administered and whether the administration of compensation and prevention should be kept separate? In New Zealand, the administration of compensation schemes is undertaken by one body (the ACC), while prevention and enforcement of occupational health and safety regulations are undertaken by another (the DoL). However, experience rating conflates compensation with prevention because when an accident occurs, the causes of the accident are addressed at the same time and in the same context as the compensation issues. Moreover, under experience rating there are potential administrative conflicts around the relationship between the employer, the employee and the ACC. That is, will the introduction of experience rating result in a more adversarial compensation administrative process? With experience rating, employers and their injured workers no longer share similar interests. When a worker makes a claim for compensation under experience rating, the employer has an incentive to object on the grounds that injury is not compensable and/or not a work accident. As part of a claims administration process, the employer or someone on his or her behalf may be charged with investigating the injury to determine whether or not the injury was a pre-existing condition (e.g. age-related) or whether or not the accident was work-related (either as a work required motion or the result of non-work activity). While these are questions typically addressed by the ACC when deciding whether to accept a claim, experience rating gives the employer an added incentive to work with ACC to deny the claim. From the workers' perspective, the employer and ACC may appear to be allies.

Fourth, given that experience rating entry criteria is based on an annual levy of \$10,000 or more, small and medium-sized businesses (SMEs), in theory, could be part of the scheme. However, research shows that the high rate of workplace injury and illness in the SME sector is not solely the result of undertaking more hazardous work but primarily because arrangements for preventive health and safety in SMEs are unsatisfactory (Walters, 2001; Tompa and Fang, 2011). The general and multi-faceted lack of resources or as Nichols (1997) states "the structures of vulnerability" that characterise the experience of SMEs for both employers and workers mean that effective management of health and safety performance in these businesses faces considerable challenges. They arise, for example, from the economic precariousness of the business, the organisation and culture of work in the sector as well as low levels of compliance and enforcement Lamm and Walters, 2004). Moreover, SMEs typically operate within complex supply chains in which the relationship between the principle and

subcontractor, and between the head office company and its subsidiary are blurred. The question is, then, how will the experience rating scheme be effectively managed within New Zealand's SME sector?

Finally, as Lippel, et al (2011) and others have begun to expose, there are other inherent issues that have the potential to undermine any potential success of experience rating, namely the rapidly changing nature of New Zealand's employment environment. In particular, both in New Zealand and overseas, the workforce is aging. The number of New Zealanders aged 65 years and over doubled between 1967 and 2001 to 460,000 (StatsNZ, n.d). This number is expected to reach 1,220,000 by 2051. Those aged 75 and over now make up 5.5% of the total population (ibid). The New Zealand Orthopaedic Association noted that the number of surgery requests accepted by ACC between 2010 and 2011 had dropped from 42,500 to 35,000 while some speciality areas had dropped by more than 50% because the injured person did not meet ACC's thresholds to receive treatment in public hospitals (NZ Herald, 2011). More precisely, in 2010, ACC denied about 30% of requests for shoulder and spine surgery, and nearly 20% of knee-surgery requests, citing degeneration (which some have argued is code for "as the result of old age") as the cause of injury and not an accident (ibid, 2011). If this trend of denying claims on the basis of "degeneration" continues, what will this mean for older injured workers employed in firms under both the experience rating programme and the general ACC scheme?

As elsewhere, New Zealand's labour force is becoming increasingly diverse and the types of working arrangements have become more complex and *ipso facto* workers' compensation claims. For example in 2006, New Zealand's migrant population was 927,000 whereby over one-third of the people born overseas had been living in New Zealand for four years or less. (StatsNZ, 2008). New Zealand migrant arrivals exceeded departures (an excess of 172,290) in 2008. In Auckland, New Zealand's largest city, over 60% of the population are now international migrants (ibid). What is not known is the suspected large number of non-documented or illegal migrant workers in New Zealand. Added to this is the rise in the rate of non-standard employment and precariously employed workers, many of whom are new migrants employed in high risk industries such as the primary, construction manufacturing sectors. Many workplaces also are affected by major changes in terms of the introduction of new technology, the emergence of more flexible forms of work organisation, and the on-going intensification of work itself. With the shifting demographics, changes within the workplace and types of work arrangements, one would have expected to see some consideration given to the ability of ACC to effectively manage these changes within the experience rating programme and to set validated experience rating levies.

The introduction of experience rating must also be seen as part of a number of changes to employment law and ACC regulations introduced by the post-2008 National Government. One significant employment law change allows employers to discharge any employee without cause during the first 90 days of their employment (Refer to 90-day Probationary Period Clause to the Employment Relations Act). A worker injured in the first few months on a new job can be dismissed without cause (Rasmussen and Anderson, 2010). Also, changes to the Accident Compensation Act, 2001 require that weekly compensation for casual, seasonal and part-time workers who have been off work because of injury for more than five weeks be calculated on the basis of their previous 52 weeks of earnings instead of being calculated on the basis of their weekly earnings at the date of injury. Most seasonal workers will suffer a considerable drop in compensation. Compensation for loss of potential earnings (LoPE) will also reduce from 100% to 80% of the adult 'minimum weekly earnings rate'. Loss of potential earnings is paid to people who have not yet had the opportunity to earn and are incapacitated either before turning 18 or while in full-time study from the age of 18. People already receiving LoPE will remain on the current rate until the amended rate reaches the current rate through increases in the minimum wage. The changes to the Accident Compensation Act, 2001 also make it possible for the employer to reduce their weekly compensation for an employee who leaves their employment and receives holiday pay while also receiving weekly compensation. This, together with a concurrent

amendment to the Employment Relations Act, 2000 which allows the employer to deduct expenses from their employee's pay below the threshold of the minimum wage, means that poorly paid injured workers can now be paid below the minimum wage of \$13.00 per hour. These changes reduce the cost of claims but do nothing to improve safety.

Conclusion

The new Experience Rating Programme has only just been implemented, and while employers are reportedly able to access records to establish their 'experience history', there is little public data on how the programme will work and whether it will result in higher or lower levies in the years to come. The National Coalition Government has argued that experience rating will make the levies fairer and provide employers with an incentive to prevent injuries and to get injured workers back to work more quickly. As noted, there is little evidence from overseas that experience rating makes workplaces safer or healthier, so time will tell, perhaps. The Experience Rating Programme may also be expensive to administer as it currently only applies to 1.2% of employers as 49% of businesses will be in the "no claims discount" programme. However, unless serious attempts are made to capture data, it will be difficult, if not impossible, to determine the costs of the programme let alone relate these costs to any putative reduction in numbers of accidents or diseases suffered by New Zealand workers.

Perhaps the problem is that even if experience rating had no impact on workplace safety and health, (either good or bad), the introduction of the experience rating suggests that the ACC is considered as an insurance company. For those who see the ACC as a social programme, experience rating is simply a contradiction. The benefits in terms of cost and social utility of the Woodhouse's social programme model of ACC risk being lost the more the ACC is shaped to fit the insurance model. Furthermore, the debate over experience rating draws attention away from the real question of how best to ensure that all workers enjoy safe and healthy working environments. From the social programme perspective, there is no need for employers, employees, and the workers' compensation agency to be adversaries. That is, experience rating may amplify the tensions around the classification and compensation of work-related injuries and, in turn, further distort work-related injury data.

Finally, since the announcement that New Zealand would have an experience rating programme (Smith, 2010) the country has experienced three major disasters – namely the Pike River Mine Disaster, the Christchurch earthquakes, and the underground explosion in Watercare Services pipeline – with serious loss of life and injury. While there are important lessons for safety to be gained from each one of these incidents, there is no evidence that experience rating would have helped. As with the example of Air New Zealand's serious crash in 1979, not all the fatalities of the three recent disasters were to employees. There are also serious logistical problems in imposing increased levies on firms devastated by the recent events, for example the Pike River firm itself no longer exists. It would be a tragedy for New Zealand to rely on such complex schemes to improve safety while downplaying or ignoring more obvious ways of achieving that end.

Notes

¹ In the literature the scheme itself is referred to by the acronym ACC

² The complex set of levies based on 204 separate classes and 700 industrial descriptions, along with the provision for rebates and penalties, proved unworkable and were overhauled in 1979.

³ While there is some difficulty in knowing what labels to use for the two views of the ACC, the most common is ‘social insurance’ versus ‘market-based insurance’. Although Woodhouse described his approach as ‘social insurance’, the difficulty with this label is that aspects of the Woodhouse proposals involved social assistance and general welfare. In particular, risk of injury by accident was to be shared by the whole community. Furthermore, the label ‘social insurance’ suggests state involvement in the running of an insurance scheme; however, a state run insurance scheme can emulate privately owned and market-based insurance programmes. The labels ‘social programme’ and ‘market-based insurance’ endeavour to make the distinction between the two views very clear.

⁴ The structure and coverage of the classifications are based on the Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC06).

⁵ Liable earnings is the term ACC uses to describe that part of the payroll upon which the work-levy is payable.

⁶ See ACC5404 ACC Partnership Programme information for employers.

⁷ The ACC characterises the “size” of the employer through reference to the amount of the levy paid by the employer (usually over the previous three years).

⁸ It should be noted that to date there are no extant claims data publically available since the change of government in 2008.

Appendix 1: Experience Rating 2011

Section 15: Experience rating modification

(1) The Corporation must calculate the experience rating modification using the following formula:

$$[(\text{rehabilitation component} \times 0.75) + (\text{risk management component} \times 0.25)] \times \text{off-balance adjustment.}$$

(2) In the formula in subclause (1),—

(a) rehabilitation component means the rehabilitation component calculated using the formula in subclauses (4) to (11):

(b) risk management component means the risk management component calculated using the formula in subclauses (12) to (19):

(c) off-balance adjustment means the adjustment that is—

(i) required to ensure that the aggregate value of discounts equals the aggregate value of loadings to be applied to section 167(4)(a) levies payable by levy payers in the applicable levy year; and

(ii) applied as described in subclause (20).

Weighting for use in calculating rehabilitation component and risk management component

(3) For the weighting referred to in subclauses (5)(c) and (13)(c), the Corporation must either calculate it using the formulas in paragraphs (a) to (h) or use the weighting in paragraph (i), as follows:

(a) if the liable earnings of the levy payer in the experience period are \$2,000,000 or less, the weighting is the result of—

$5\% \times \sqrt{\text{liable earnings} / \$2,000,000}$:

- (b) if the liable earnings of the levy payer in the experience period are over \$2,000,000 and equal to or under \$5,000,000, the weighting is the result of—
 $5\% + \{5\% \times \sqrt{\text{liable earnings} - \$2,000,000} / \$3,000,000\}$;
- (c) if the liable earnings of the levy payer in the experience period are over \$5,000,000 and equal to or under \$10,000,000, the weighting is the result of—
 $10\% + \{5\% \times \sqrt{(\text{liable earnings} - \$5,000,000)} / \$5,000,000\}$;
- (d) if the liable earnings of the levy payer in the experience period are over \$10,000,000 and equal to or under \$20,000,000, the weighting is the result of—
 $15\% + \{5\% \times \sqrt{(\text{liable earnings} - \$10,000,000)} / \$10,000,000\}$;
- (e) if the liable earnings of the levy payer in the experience period are over \$20,000,000 and equal to or under \$50,000,000, the weighting is the result of—
 $20\% + \{10\% \times \sqrt{(\text{liable earnings} - \$20,000,000)} / \$30,000,000\}$;
- (f) if the liable earnings of the levy payer in the experience period are over \$50,000,000 and equal to or under \$100,000,000, the weighting is the result of—
 $30\% + \{10\% \times \sqrt{(\text{liable earnings} - \$50,000,000)} / \$50,000,000\}$;
- (g) if the liable earnings of the levy payer in the experience period are over \$100,000,000 and equal to or under \$200,000,000, the weighting is the result of—
 $40\% + \{10\% \times \sqrt{(\text{liable earnings} - \$100,000,000)} / \$100,000,000\}$;
- (h) if the liable earnings of the levy payer in the experience period are over \$200,000,000 and equal to or under \$1,350,000,000, the weighting is the result of—
 $50\% + \{50\% \times \sqrt{(\text{liable earnings} - \$200,000,000)} / \$1,150,000,000\}$;
- (i) if the liable earnings of the levy payer in the experience period are over \$1,350,000,000, the weighting is 100%.

Rehabilitation component

- (4) The Corporation must calculate the rehabilitation component using the following formula:
 $(\text{payer's rate} - \text{payers' rate}) / \text{payers' rate} \times \text{weighting}$
- (5) In the formula in subclause (4),—
- (a) payer's rate means the experience rate of the levy payer for the applicable levy risk group calculated using the formula in subclauses (6) and (7):
- (b) payers' rate means the experience rate of the levy payers in the applicable industry peer group calculated using the formula in subclauses (8) and (9):
- (c) weighting means the weighting provided by subclause (3).
- (6) The Corporation must calculate the experience rate of the levy payer for the applicable levy risk group using the following formula:
 $\text{compensation days} / \text{earnings}$.

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Emotional Labour and Self-Determination Theory: A Continuum of Extrinsic and Intrinsic Causes of Emotional Expression and Control

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Abstract

What drives employees to engage in each of the three forms of emotional labour: surface acting, deep acting and genuine expression? The motivational bases of these behaviours have seldom been examined. We therefore explore them through the continuum of controlled to autonomous drivers of behaviour which are central to Self-Determination Theory. The concepts of extrinsic motivation (external regulation, introjected regulation, identified regulation and integrated regulation) and intrinsic motivation are integrated with forms of emotional labour to explain how and why employees regulate their emotional expression.

Introduction

Emotional labour (EL) is performed when employees express what the organisation would consider as ‘appropriate’ emotions and suppress the display of ‘inappropriate’ emotions (Brotheridge and Lee, 2002). As a general rule, employees are expected to be polite, warm and friendly to internal and external stakeholders while expressions of anger and frustration are strongly discouraged (Smollan, 2006). If these responses are not genuine employees may feel the need to work at making them genuine or fake them (Hochschild, 1983). They tend to do what the organisation requires of them because of the explicit or implicit relationships between EL and reward or punishment (Sutton and Rafaeli, 1988). Achieving success in meeting any type of job demand should result in praise, good performance appraisals, job advancement and greater remuneration, and these benefits could be expected to translate into greater job satisfaction. Conversely, employees who are judged as weak in meeting certain job demands may suffer criticism and slow, if any, career progress. Applying this logic to EL, however, fails to explain why particular types of emotional regulation are selected by individual employees in a given situation. Indeed, despite the surge of scholarly interest in emotions at work, and EL in particular (Ashkanasy and Daus, 2013), little attention has been paid to what motivates employees to regulate their emotions. This is even more surprising given that the consequences for employee health and wellbeing of performing EL are often negative (Prati, Perrewé, Liu and Ferris; 2009; Pugh, Groth and Hennig-Thurau, 2011).

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The study of EL is a multi-disciplinary endeavour, with Grandey, Diefendorff and Rupp (2013) suggesting that EL can be viewed through three primary lenses: sociology (as an occupational requirement), organisational behaviour (as emotional displays) and psychology (as an intrapsychic process). While all three lenses should be used to provide a holistic picture, our emphasis in this article is on the intrapsychic process, specifically on the role of motivation in embracing or resisting EL-related job demands. However, we draw on the other two perspectives to provide the context for motivation to perform EL. We also locate our study in the context of employment relations (which has seldom been explicitly done for EL) because EL goes to the heart of many work role requirements and creates many tensions. (Diefendorff, Richard and Croyle, 2006; Hochschild, 1983). Lamm and Rasmussen (2008: 110) maintain that employment relations is “an area where there are continuous power struggles and conflict over how we work, what our rights and obligations are and what constitutes acceptable conditions of work.”

The emotional component of work roles has grown as the number of jobs in the service sector increases and as some of the ‘soft skills’ (Nickson, Warhurst, Commander, Hurrell and Cullen, 2012) of internal and external work relationships have become more important. Prior research into EL has focused on its nature, the various forms or strategies employees use and the consequences for organisational performance and individual wellbeing. However, it has seldom addressed what motivates employees to express and control emotions beyond the reward/punishment consequences.

The key research question we seek to answer is: In what ways are forms of extrinsic and intrinsic motivation related to different EL strategies? We therefore draw on concepts from Self-Determination Theory (SDT) (Deci and Ryan, 2002) which has been used extensively in organisational and social psychology (see Gagné and Deci, 2005; Hagger and Chatzisarantis, 2009; Stone, Deci and Ryan, 2009). We begin by reviewing the research into EL, position EL in the field of employment relations and provide an overview of SDT. We then integrate EL and SDT by developing a table of possible employee responses and an accompanying set of propositions that can be empirically tested.

The Nature of EL

Previous research into EL has defined it in many different ways (Glomb and Tews, 2004; Hsieh, Yang and Fu, 2011). The originator of the term, Hochschild (1983: 7), explained EL as the “the management of feeling to create a publicly observable facial and bodily display.” Brotheridge and Lee (2003: 365) regard it as the effort made by employees to “regulate their emotional display in an attempt to meet organisationally-based expectations specific to their roles.” According to Morris and Feldman (1996: 997) it is “the effort, planning and control needed to express organizationally-desired emotion during interpersonal transactions.” Therefore one key point of difference in definitions of EL is whether it is primarily the management of emotion or the management of one’s communication of the emotion through voice, facial expression and other forms of body language. Of prime concern to the organisation is that the outward display of emotion is appropriate and consequently the deleterious effects, such employee burnout and lack of authenticity (Grandey, 2003; Pugh et al., 2011), have often gone unnoticed. Authors have also suggested that the concept of EL needs to be seen together with aesthetic labour, the effort to ‘look good’ (Nickson et al., 2009) as part of what Sheane (2011) terms presentational labour.

EL in the Context of Employment Relations

Rasmussen (2009) notes that employment relations is a multi-disciplinary field, with its roots in economics, sociology, psychology, politics, history and law. He identifies four key elements of the field: the power and interests of employer and employee, the strategies they use to enhance their interests, the use of formal and informal rules and processes, and the contexts in which employment relationships operate.

These four elements can also be used to analyse the construct of EL. Firstly, the requirement to hide or show emotions at work can put employer and employee into adversarial positions where power relationships are uneven. Secondly, employers may adopt strategies that promote the use of EL to achieve organisational ends, like customer satisfaction, and employees may resort to faking the appropriate emotions as a way of meeting job expectations but still suffer the consequences. As Hochschild (2013, p. xiii) comments 30 years after the publication of her seminal book:

Tellingly, in the United States the idea of emotional labor has been embraced by business advice gurus as an undiscovered resource and means of competitive advantage, and by labor unions as a cause of burnout deserving of financial compensation.

Thirdly, as Pugh, Diefendorff and Moran (2013) point out, by factoring in emotional display and suppression into the human resource management processes of job analysis, job descriptions, selection, training and performance management, organisations create implicit or explicit feeling or display rules (Ashforth and Humphrey, 1993; Hochschild, 1983). Fourthly, EL is influenced by social, professional and organisational forces (Bolton, 2005; Smollan, 2006), which influence an organisation's culture and determine tasks requirements in various jobs. While EL has been described as a process whereby feelings are commercialised for profit (van Maanen and Kunda, 1989), studies have also revealed the need to perform EL in the public sector (e.g. Guy, Newman and Mastracci, 2008; Hsieh et al., 2011), particularly in healthcare (e.g. Mann, 2005) and in non-profit organisations (e.g. Callahan, 2000; Eschenfelder, 2009).

Targets of EL

Early research into EL focused on service encounters in which staff needed to show positive emotions and curtail negative emotions to customers and clients to enhance their satisfaction. Hochschild's (1983) study of airline attendants was followed by studies of staff in other service industries, such as convenience stores (Sutton and Rafaeli, 1998), call centres (Song and Liu, 2010), fast-food outlets (Tan, Foo, Chong and Ng, 2003), financial services (Bagozzi, Verbeke and Gavino, 2003) and adventure tourism (Sharpe, 2005). Research has also been conducted in professional areas where practitioners meet clients, for example, in healthcare (Mann, 2005), law (Harris, 2002; Lively, 2002) and academia (Mahoney, Buboltz, Buckner and Doverspike, 2011). Given that leaders need to generate commitment and enthusiasm in followers, EL researchers have turned their attention to the emotional content of their roles (Humphrey, Pollak and Hawver, 2008; Lewis, 2000). Humphrey et al. (2008) have separated the roles of those significantly engaged in EL as those in customer service, the caring professions, social control (e.g. police and bill collectors) and leadership. Yet every organisational role to some degree requires staff to regulate their emotions to maintain productive relationships with respect to different 'audiences' (Harris, 2002), including internal stakeholders, such as colleagues and subordinates, and representatives of external agencies, such as clients, suppliers, government, media and investors.

Types of EL

Hochschild (1983) identified two processes that employees use to be able to display or suppress emotions. Surface acting requires the management of emotional expression so that the other party gets the impression that appropriate feelings are shown. This does not require the person to feel the emotion, merely to simulate it. Deep acting, however, involves considerably more effort as the employee aims to experience the emotion so that in due course it is revealed as authentic expression. In their analysis of the cultural practices at Disneyland, van Maanen and Kunda (1989) reveal the painstaking attempts by the organisation to convince staff that they *should* feel the right emotions. Sharpe (2005) reports that her respondents, outdoor guides, had been persuaded to believe that being genuine in emotional expression was morally correct and that faking emotion was insufficient. One guide observed of an encounter with a difficult tourist: “It was tough trying to be genuine and sincere and encouraging. But it was important and it was a good lesson for me” (p. 44).

Blau, Fertig, Tatum, Connaughton, Park and Marshall (2010) argue that the labels of surface acting and deep acting are too limiting and therefore need to be broadened. They contend that difficult clients present much greater challenges to the employee. They argue that surface acting should therefore be separated into basic surface acting, which is the effort to regulate one’s emotional expression in the normal course of events, and challenged surface acting, which is considerably more difficult, and occurs when the other, usually a client, acts in a demanding, even hostile, way. For example, referring to EL in the non-profit sector Eschenfelder (2009: 175) suggests that:

...workers often deal with people who are sick, abusive or abused, down on their luck, without homes, or dealing with life histories beyond most people’s imagination. Because of difficult situations being faced by these clients, they can be unpleasant to work with, overly demanding, dishonest, manipulative, and disobedient.

Blau et al. (2010) distinguish between three forms of deep acting. Basic deep acting is defined as, “changing one’s display and also the felt emotion” (p. 193), perspective taking occurs when one is trying to see an issue from the other’s point of view, and positive refocus involves looking beyond the negative elements of an encounter to find something positive.

Researchers have also argued that the display of positive emotion is often quite genuine and needs no acting (Ashforth and Humphrey, 1993; Glomb and Tews, 2004; Mahoney et al., 2011). Some scholars contend that this is not EL because the actor does not have to work at producing the ‘appropriate’ emotion (Blau et al., 2011). However, other researchers (e.g. Ashforth and Humphrey, 1993; Dieffendorff, Croyle and Gosserand, 2006; Glomb and Tews, 2004) do consider the expression of naturally felt emotions to be EL because energy still has to be expended and controlled for it to be effective. Glomb and Tews (2004) found in their empirical study of a number of occupational groups that genuine expression can also be emotionally exhausting. Dieffendorff et al. (2006) demonstrated empirically that genuine expression produced a distinctly different form of emotional strategy from that associated with deep acting and surface acting. The natural expression of negative emotion is seldom investigated by scholars (Mahoney et al., 2011), presumably because it is usually frowned on, except within prescribed limits in context-specific circumstances, such as debt-collecting (Sutton, 1991), police work (Glomb and Tews, 2004), the disciplining of students (Mahoney

et al., 2011) and supervisor-subordinate relationships (Lewis, 2000). Mann (2005) also advises that natural expression in caring professions such as nursing may not always be effective as the practitioners may become too embroiled in the emotions of the patients.

Causes of EL

The most common reason offered for appropriate expression and suppression of emotion is that it is considered to be in the interests of the organisation. In the early focus on service providers, researchers took the position that when staff display friendliness and warmth to customers or clients the latter respond with purchases and repeat custom as demonstrations of their satisfaction. Thus what have been termed 'feeling rules' (Hochschild, 1979), or more accurately 'display rules' (Ekman, 1973), have been explicitly and implicitly created to signal to staff how important it is to express and control emotions appropriately (Diefendorff et al., 2006). Researchers have also shown that different industries have different EL expectations (Ashforth and Humphrey, 1993) and that professions develop formal codes of conduct and informal expectations of appropriate emotional management (e.g. Harris, 2000; Mann, 2005).

Yet, as Smollan (2006) points out, there are many other drivers of EL, such as norms from the wider social environment, which are influenced by national and ethnic factors, by group expectations and socially-constructed gender and power roles, and by a range of factors within the individual, such as emotional intelligence, personality and self-identity. Emotional regulation (Gross, 1998) is influenced by a variety of social contexts, such as family, school, sport, religion and community life. The processes by which we regulate our emotions at work may not necessarily be very different from these other contexts, although the specific drivers may be somewhat different.

Bolton (2005) identifies four motives for EL: pecuniary (it is required for a paid job role), prescriptive (based on company values or derived from codes of conduct for professionals), philanthropic (offered as an 'extra' without being required) and presentational (influenced by wider social norms). It is quite possible that employees are motivated at different times by all of these forces in carrying out their jobs but, with the exception of the philanthropic, all seem to have an extrinsic focus. While Bolton's framework provides a useful basis for examining employee motives, it does not adequately explain when a person uses surface acting or deep acting or is expressing a genuine emotion.

Emotional intelligence is the ability to understand and manage one's own emotions and understand and appropriately respond to the emotions of others (Mayer and Salovey, 1997). In service encounters, for example, this provides sales people with the skills to understand the frustration or anger of customers, helps them to control their own negative emotions, such as irritation or anxiety, and allows for a productive resolution of difficult issues. As Prati et al. (2009) demonstrated, it also enables the sales staff to reduce the strain associated with surface acting. Austin, Dore and O'Donovan (2008) report that emotional intelligence (measured using a scale that mixes ability with personality) was negatively associated with surface acting and unrelated to deep acting. High emotional intelligence in leaders also encourages followers to share their feelings with them more readily, as Smollan and Parry (2011) report in a qualitative study on organisational change.

Research has also revealed how the related constructs of personality, self-concept and self-identity influence the degree to which individuals feel comfortable in performing EL, whether it is surface acting, deep acting or natural expression. For example, Diefendorff et al. (2006) found surface acting was positively predicted by neuroticism and self-monitoring, and negatively by extraversion, agreeableness and conscientiousness; deep acting was positively predicted by agreeableness alone; and expression of naturally felt emotions was positively predicted by extraversion and agreeableness. Similarly, Austin et al. (2008) found in surveying students who had worked with people that surface acting was positively correlated with neuroticism and negatively correlated with extraversion and conscientiousness, while deep acting was positively correlated with agreeableness and extraversion. Kiffin-Petersen, Jordan and Soutar (2010) report on a study of a wide range of occupations in which respondents high in agreeableness and extraversion tended to engage in deep acting while emotional instability predicted surface acting. In two studies of service personnel, Chi, Grandey, Diamond and Kimmel (2011) found that where extraverts did use surface acting they performed better than introverts.

In interpreting social identity theory, Ashforth and Humphrey (1993: 98) suggest that when an employee's sense of identification with the organisation or role is strong, "that is, individuals who regard their roles as central, salient and valued components of who they are – are apt to feel most authentic when they are conforming to role expectations, including display rules." They note that while this does not determine the nature of EL it influences the degree of job satisfaction and stress the employee experiences as a result of the EL. Pugh et al. (2011) found that when employees feel low self-efficacy in situations which require them to hide or fake emotions they experience considerable job dissatisfaction and emotional exhaustion. Thus, while dispositional variables do not necessarily dictate what form of EL the employees use, they do influence their levels of wellbeing.

While a great deal of EL research has examined what it is, what causes it and what the outcomes are for the organisation and the employee, it has paid insufficient attention to the motivation of the employee to perform various forms of EL. The antecedents of EL have too often been simply pigeon-holed as reward and punishment or broadened on occasion, to include individual differences, such as emotional intelligence or personality. Diefendorff and Gosserand (2003), in their control theory interpretation of EL, used the Expectancy Theory (Vroom, 1964) constructs of valence and expectancy, and Hsieh et al. (2011) demonstrated a negative association between the public service motivation construct and surface acting and a positive association between public service motivation and deep acting. With these exceptions the patterns of motivation underlying EL appear not to have been explored in any published literature. An unpublished Masters thesis by Saluan (2009) did posit a relationship between the types of motivation described in Self-Determination Theory (Deci and Ryan, 2000, 2002) and the categories of EL, in the context of developing a measure of an expanded version of Bolton's (2005) model of motives for EL, described above. Intrinsic motivation was found to have a strong positive relationship with deep acting and genuine emotional expression and a negative relationship with surface acting.

We believe that the fine-grained approach of Self-Determination Theory provides valuable insights into what facets of intrinsic and extrinsic motivation drive individuals to perform the different types of EL. We therefore first outline the nature of the theory then describe how it relates to the motivational basis of EL and its various forms.

Self-Determination Theory (SDT)

SDT was developed by Deci and Ryan (2000, 2002) from their earlier and less comprehensive Cognitive Evaluation Theory, from the mid-1980s onwards. It has proved popular in research studies in a variety of contexts and disciplines (Gagne & Deci, 2005). Fundamental to their model is the distinction between autonomous and controlled motivation, on the basis of which SDT classifies several types of external and internal motivation, and the relationships between them, in a manner that appears very well suited to further explication of EL. The self-determination continuum (Table 1) shows a range of possible types of motivation and, within them, sub-types of what are labeled regulatory styles. The model is well described elsewhere (Gagné & Deci, 2005; Ryan & Deci, 2002) but will be summarised here.

Table 1: The Self-Determination Continuum

Amotivation	Extrinsic motivation				Intrinsic motivation
	External regulation	Introjected regulation	Identified regulation	Integrated regulation	
Absence of intentional regulation	Contingencies of reward and punishment	Self-worth contingent on performance; ego-involvement	Importance of goals, values and regulations to the individual	Coherence of goals, values and regulations within the individual	Interest and enjoyment of the task
Lack of motivation	Controlled motivation	Moderately controlled motivation	Moderately autonomous motivation	Autonomous motivation	Inherently autonomous motivation

Source: Adapted from Gagné and Deci (2005: 26)

Extrinsic motivation, as classically defined, is the motivation to perform an action in order to attain a *separable outcome* (Ryan and Deci, 2002), either a desired consequence (typically a reward of some kind) or the avoidance of an undesired consequence, such as a punishment. This is contrasted with intrinsic motivation that arises from the person's interest in and enjoyment of the activity, so that the desired outcome is the activity itself and the feelings associated with engaging in it, and there is no separable outcome. An alternative definition, based on the concept of *locus of causality* (Heider, 1958), was used by deCharms (1968) to classify motivation as intrinsic when the origin of and control over a person's behavior are perceived to be from within themselves, and extrinsic when it is perceived to be external to themselves. However, SDT adheres to the separable outcome criterion to distinguish intrinsic from extrinsic motivation and uses the perceived locus of causality (PLOC) construct to separate sub-types of extrinsic motivation.

The contrast between intrinsic and extrinsic motivation has been described many times and has informed much research (see Gagné and Deci, 2005). However, SDT goes further and explores the *internalisation* of extrinsic motivation, which can occur to varying degrees, with corresponding differences in the level of felt autonomy. Autonomy, in SDT, means "acting with a sense of volition and having the experience of choice" (Gagné and Deci, 2005: 333). External regulation refers to the classically recognised extrinsic motivation in response to demands and contingencies outside the person, to obtain rewards or avoid punishments, where the PLOC is entirely external. If the regulation is internalised relatively superficially

and the person does not identify with it, or accept it as their own, if “it is within the person but is not considered part of the integrated self” (Ryan and Deci, 2002: 17), autonomy remains low, PLOC is again external, and the regulation is almost as controlling as in external regulation. This is known as *introjected regulation*. This kind of regulation can include ego concerns and contingent self-esteem, where a person behaves in a given way in order to feel that he/she is a ‘good’ person.

If, however, individuals are able to identify with the value underlying the regulation and can see it as in some sense ‘their own’, thus shifting to an internal PLOC, autonomy substantially increases and the motivation is labeled *identified regulation*. “People feel greater freedom and volition because the behavior is more congruent with their personal goals and identities” (Gagné and Deci, 2005: 334). When this congruence or identification is fully integrated with other components of the individuals’ self, to the extent that the behaviour expresses fundamental aspects of their personhood, their motivation is said to be *integrated regulation*, and is as autonomous as intrinsic motivation, while remaining distinguished from it by the separable outcome criterion. Each of these motivational states can be of relatively short duration, or can become individually preferred patterns or tendencies across a range of situations in the longer term, and hence can then be regarded as autonomous or controlled motivation traits (Sheldon, Ryan and Reis, 1996; Sisley, 2010).

SDT differs from most other theories of work motivation in that it is less concerned with the ‘amount’ or strength of motivation and more focused on distinguishing the relative proportion of autonomy versus control in the different types of motivational regulation (Gagné and Deci, 2005). It is an important contributor to motivation theory, as evidenced by a wealth of research studies, both theoretical and applied. (For a review see Stone et al., 2009). In addition, the SDT home site (www.selfdeterminationtheory.org) lists more than 50 academic papers under the heading of Organizations and Work alone, more than 160 under Education, and no less than 235 under Sport, Exercise and Physical Education, and these lists are far from exhaustive. A few examples listed are the application of SDT in the work and organisational areas of creativity, self-esteem, job performance, employee commitment and well-being, knowledge-sharing, burnout, engagement, turnover and compensation.

EL and SDT

Applying the categories of the SDT continuum to the three forms of EL – surface acting, deep acting and genuine expression/naturally felt emotions (Diefendorff et al., 2005), some correspondences become apparent. These proposed relationships are displayed in Table 2 below and include hypothetical examples of how an employee might explain his or her reasoning for acts of expressing the ‘right’ emotion or suppressing the ‘wrong’ emotion. Accompanying the table is a set of propositions on the EL/SDT relationships.

Table 2: Proposed Relationships between the SDT Continuum and Types of EL

	External regulation	Introjected regulation	Identified regulation	Integrated regulation	Intrinsic regulation
	Contingencies of reward and punishment	Self-worth contingent on performance; ego-involvement	Importance of goals, values and regulations	Coherence of goals, values and regulations	Interest and enjoyment of the task

Surface acting	<i>I pretend to care because of rewards or punishment.</i>	<i>I try to act as if I care because I will feel good if I act professionally.</i>			
Deep acting			<i>I try hard to care because I believe it is important to care about clients in this situation and to treat them well.</i>	<i>I try hard to care because I deeply believe in the value of caring for others. It is important that the clients feel they have been treated appropriately.</i>	
Genuine emotional expression				<i>I show positive emotions when looking after clients because I genuinely care about them (even when the actual tasks are uninteresting or unpleasant).</i>	<i>I enjoy looking after clients and I am happy to show it.</i>
	Controlled motivation	Moderately controlled motivation	Moderately autonomous motivation	Autonomous motivation	Inherently autonomous motivation

Surface Acting and SDT

Surface acting is performed in order to please someone else, usually the person’s manager or the customer or colleague with whom the employee is interacting. In other words, the employee is seeking to obtain rewards (e.g. praise) or avoid punishments (e.g. their manager’s displeasure or anger) (Sutton and Rafaeli, 1988). As such, the motivation is for an outcome separable from the interaction itself, and hence is a form of extrinsic regulation. By definition, the emotion shown is simulated rather than genuine and is engaged in order to create a favourable reception (Hochschild, 1983), constituting a type of impression management (Gardner and Matinko, 1988). Thus, it fits well with the low autonomy forms of extrinsic regulation, namely external and introjected (Gagné and Deci, 2005). If the behaviour is performed in the presence of the manager, or is closely supervised in some other way, the motivation is external regulation. If it persists when the person is not observed or closely supervised, we can assume that the person has internalised the external regulation to some extent, without identifying with it or necessarily endorsing it, and the behaviour is driven by introjected regulation (Gagné and Deci, 2005). In either case there is an external PLOC – one is acting this way because someone else requires or expects it.

Proposition 1a: When employees express or suppress emotions appropriately because of an expected reward or punishment they are motivated by external regulation.

Proposition 1b: When employees express or suppress emotions appropriately because someone else expects it and/or they feel their self-worth is contingent on doing so, they are motivated by introjected regulation.

Deep Acting and SDT

Deep acting on the other hand involves making a deliberate effort to actually feel the required emotion that in due course will lead to a spontaneous display of it (Ashforth and Humphrey, 1993; Diefendorff and Gosserand, 2003; Hochschild, 1983). The purpose of this is again to achieve a separable outcome, in that the purposeful effort made to experience and express the emotion is separate from actually doing so, but the distinction is more subtle. Thus the motivation is extrinsic, but to the extent that the individuals wish to make this effort and express this emotion because they think it important to do so in terms of their own values, the PLOC is internal. This may be out of loyalty to the organisation, a demonstration of good faith (Ashforth and Humphrey, 1993; Johnson and Spector, 2007), because the staff members endorse the display rules, or believe that it is important to act towards others in an appropriate way. However, in all such cases they identify with the values underlying the behaviour. Hence the motivation is high-autonomy extrinsic regulation, either identified or integrated, depending on the depth and extent of the identification (Gagné and Deci, 2005).

Proposition 2a: When employees consciously attempt to feel and express emotions appropriately because doing so is consistent with their values in this particular context, they are motivated by identified regulation.

Proposition 2b: When employees consciously attempt to feel and express emotions appropriately because doing so is consistent with their fundamental values, behaviour and sense of identity in this and other contexts, they are motivated by integrated regulation.

Genuine Emotional Expression and SDT

Turning to the display of genuinely felt emotions, if the employee finds this behaviour enjoyable, positively challenging, or interesting, and hence rewarding in its own right without reference to external contingencies, clearly the motivation is intrinsic. Examples might be the 'natural' salesperson who simply enjoys the actual process of making a sale, and the nurse who experiences satisfaction when a kind word to a patient is seen to be comforting. Mahoney et al. (2011: 419) concluded after their study of university academics that "Professors may think positive genuine expression is the simplest path to receive intrinsic rewards (e.g., higher quality relationships with students) or extrinsic rewards (e.g. high teacher ratings)."

When such a spontaneous display of appropriate emotions does not have these qualities of enjoyment but is nonetheless genuine, the underlying motivation is better classed as integrated regulation, the most internalised and identified-with variety of extrinsic motivation (Gagné and Deci, 2005). For example, an employee might feel real empathy for dissatisfied customers, and sincerely wishes to improve the outcome for them, but does not enjoy the customers' angry displays.

Proposition 3a: When employees express naturally-felt emotions not for enjoyment, but because doing so is consistent with their fundamental values, behaviour

and sense of identity in this and other contexts, they are motivated by integrated regulation.

Proposition 3b: When employees express naturally-felt emotions because they enjoy doing so, they are intrinsically motivated.

Implications for Theory and Practice

As noted above, personality traits such as extraversion and agreeableness have been shown to be differentially associated with the three types of EL (Diefendorff et al., 2005). People with enduring preferences for either autonomous or controlled motivation can be said to have corresponding motivational traits (Sheldon et al., 1996, Sisley, 2010), and it may be that these also influence which type of EL is employed in a given situation, as per the relationships in Table 2. Thus, those with a controlled motivational preference, operating under external or introjected regulation, would be more likely to select surface acting, whereas those with a trait of preferring autonomous motivation, driven by identified, integrated or intrinsic regulation, would more often opt for deep acting or expression of genuinely felt emotions. This would be consistent with Johnson and Spector's (2007) finding that employees with high levels of autonomy usually adopt deep acting rather than surface acting in EL situations.

Research into the negative effects of EL can be enhanced by exploring the relationships between different forms of extrinsic motivation to perform EL and employee stress and burnout. For example, a number of studies have shown that greater autonomy is correlated with less stress, better health and better physical and mental well-being (see Sisley, 2010). If, as suggested above, deep acting is motivated by the more autonomous forms of extrinsic motivational regulation (identified and integrated) compared to surface acting (external and introjected), we have a possible explanation for the common finding that deep acting leads to less stress and burnout than does surface acting (e.g. Kiffin-Petersen et al., 2011; Naring, Briët and Brouwers, 2006). Since the more identified and integrated forms of motivational regulation posited to underlie deep acting are based on the personal values of the individual, and hence by definition are more authentic than the less autonomous motivation underlying surface acting, they also provide a mechanism for the effects of the perceived inauthenticity of 'faking it' by surface acting (Brotheridge and Lee, 2002).

From an organisational perspective, over time repeated use of the more stress-inducing surface acting strategy through much of the workday can be expected to have similar effects to other long-term stressors and to produce a chronically stressed or overaroused state, with the well-documented adverse effects on the health and well-being of employees and the likelihood of eventual burnout (Prati et al., 2009; Sisley, Henning, Hawken and Moir, 2010). It would therefore clearly pay employers to encourage staff to engage in deep acting (Grandey, 2003; Kiffin-Petersen et al., 2011; Song and Liu, 2010), and expression of naturally felt positive emotions in preference to surface acting, in accord with general stress prevention policies. However, given that deep acting initially requires more effort, and many employees are unable or unwilling to do it, allowing employees more autonomy in how to respond to other people's behaviour may be the key to lower levels of stress. The use of job autonomy to reduce job stress is a successful strategy documented by a range of researchers in stress management (e.g. Bakker and Demerouti, 2007; Kalleberg, Nesheim and Olsen, 2009; Karasek, 1998) and EL (e.g. Johnson and Spector, 2007; Kiffin-Petersen et al., 2011). Understanding the nature of internalisation, as described in SDT, may help form successful

strategies for doing this. For example, the recruitment and selection process should pay special attention to employees' values and the degree of congruence of these with those underlying the work activity, to improve the chances of the employees being motivated by identified and integrated regulation and hence choosing to make use of deep rather than surface acting. Such practices would, incidentally, fit well within the overall facilitation of employee autonomy as an approach to organisation-wide stress management as advocated by Sisley (2010), but in any case clearly have value in their own right. Nevertheless, forms of surface acting are inevitable at times in many areas of organisational life, especially in service roles, so organisations also need to train employees in how to deal with the negative effects of EL (Prati et al., 2009).

However, van Maanen and Kunda (1989) warn that the more explicitly management requires employees to regulate their emotions the less effective this approach is likely to be. These extrinsic forms of motivation are likely to inhibit or even undermine intrinsic motivation (Deci, Koestner and Ryan, 1999), at the cost of the individual's job satisfaction and psychological wellbeing, and probable adverse affects on both the employee's and the organisation's performance goals. Nevertheless, managers who have emotional intelligence and integrity will be aware of the emotional demands certain tasks have on employees (Smollan and Parry, 2011), and will provide them with training (Grandey, 2003) that helps to mitigate the demands, and support their staff when the going gets tough.

Finally, a relatively unexplored area of research is the extent to which different forms of motivation to perform EL are influenced by the nature of the work relationships. How relevant are issues of self-employment versus working for others (considering that Hochschild's (1983) definition was that EL was performed for a wage), or working for the profit-making sector compared to government and non-government sectors? Cohen (2011) showed that self-employed hairdressers resorted more frequently to deep acting while those working for others tended to engage in surface acting. However, there appear to be few studies that examine self-employment, particularly in the relationship between different forms of motivation and different forms of EL. In addition, studies of EL and public service motivation (Hsieh et al. 2011) and the non-profit sector (Eschenfelder, 2012) also indicate that the sector of employment does not substantially alter the requirement or the motivation to perform EL, nor does it have very different consequences than for those employed in commercial organisations. However, intrinsic and extrinsic motivation have not been sufficiently explored in studies of EL across different sectors and forms of work and SDT theory provides a useful lens through which to view these types of issues. We believe we have contributed to the literature on EL theory by infusing it with insights from SDT that analyse in more depth the motivational bases of emotional expression and control.

Conclusions

We have noted the lack of motivational analyses within the broad literature on EL and suggested that SDT provides a potentially useful framework for such an analysis. We believe that surface acting exhibits an external PLOC and is motivated by less autonomous, more controlled forms of extrinsic regulation (external and introjected regulation). In contrast, deep acting is characterised by an internal PLOC and driven by the more autonomous identified and integrated forms of motivational regulation, with the expression of naturally felt emotions being either intrinsically motivated or subject to integrated regulation, depending on whether the experience is enjoyable for the individual. The propositions we have presented

allow for empirical quantitative investigation. The integration of SDT and EL also provides a solid basis for a qualitative investigation which is suited to teasing out the complexities of emotional expression and regulation and their motivational antecedents.

Employees may have many reasons, congruent and conflicting, for adopting one form of emotional labour strategy for a particular task or encounter. For example, it is plausible for an academic, as Mahoney et al. (2011) indicate, to engage in natural emotional expression for intrinsic and extrinsic rewards. Even one who is intrinsically motivated by the challenge of teaching may on occasion find student behaviour to be taxing and requiring some form of surface acting to moderate an 'inappropriate' emotional response. Blau et al. (2010) and Song and Liu (2010) have shown that customer/client aggressiveness makes surface acting considerably more demanding. A variety of drivers may influence a suitable response in such situations. The employees may regulate their emotional expression because the organisation requires it, because it is consistent with their self-efficacy, values and sense of identity, and/or because they can see why the customer is being aggressive and not take it personally.

As noted earlier, EL also depends partly on individual differences, such as personality and emotional intelligence. A heightened sense of conscientiousness and agreeableness, together with insight into others' emotions, can influence an employee to observe organisationally-mandated display rules. These constructs therefore need to be factored into researching the nexus of EL and SDT.

EL seldom distinguishes between contrived emotional control and natural control. In writing on emotional regulation, Gross (1998: 275) prefers "to think of a continuum from conscious, effortful and controlled regulation to unconscious, effortless, and automatic regulation." In his definition of emotional regulation he includes processes by which individuals decide which emotions to experience, in addition to expressing and controlling them. This line of thinking relates to both the constructs that are the subjects of this paper. Firstly, the word labour in the EL construct indicates some form of effort. How conscious or 'effortful' the performance of EL is needs further investigation. With respect to the motivation to express or control emotion it could also be suggested that the more autonomous forms of motivation require less effort because they come more naturally and willingly. As Ryan and Deci (2006) point out, the relationships between conscious and unconscious forms of regulation and extrinsic forms of motivation have not been clearly established.

Finally, in this paper we have made little distinction between positive and negative emotions but need to do so to present a fuller picture. Most studies of EL focus on displaying positive emotion and curtailing negative emotion. If one has little intrinsic enjoyment of a task it may be difficult to perform either form of EL. For others it may be easier to display positive emotions but more difficult to handle the negative emotions, such as when staff need to deal with difficult situations (Blau et al., 2010; Song and Liu, 2010). The infusion of EL theory with insights from SDT theory signals a promising new approach to understanding and researching the processes of EL.

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Direct and Interaction Effects of Challenge and Hindrance Stressors Towards Job Outcomes

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Abstract

Recently, studies have shown the positive (challenge) and negative (hindrance) nature of stressors can influence job outcomes in opposite directions. However, no study has explored the interaction effects of these stressor dimensions on each other. The direct and interaction effects were tested with two studies: (1) 100 blue collar workers from a single organization, and (2) 275 Maori (the indigenous people of New Zealand) employees from a variety of professions and industries. Study 1 found support for the direct effects towards employee loyalty and organizational commitment, and this was also supported in study 2 towards perceived organizational support and job satisfaction. In study 2, only hindrance stressors predicted employee loyalty. Overall, three significant interaction effects were found towards employee loyalty (in both studies) and perceived organizational support, with respondents with high challenge stressors and low hindrance stressors reporting the highest levels of job outcomes. These findings support the interplay between stressors and highlight the benefits for organizations in seeking to address enhanced challenge stressors while also minimizing hindrance stressors.

Keywords: stressors, challenge, hindrance, job outcomes, interactions; New Zealand.

Introduction

Work-related stress represents a widespread global phenomenon, which has been shown to generate a range of consequences for workers and employers alike. For example, Farber (1983) documents the potential for human burnout as a result of work-related stress in service occupations. In contrast, the literature also indicates the potential emergence of positive occupational stress-related outcomes. For instance, in a study of 696 learners, LePine, LePine and Jackson (2004) found that stress associated with challenges in the learning environment (challenge stressors) had a positive relationship on learning performance, while stress associated with hindrances in the learning environment (hindrance stressors) exerted a negative relationship on learning performance. Despite the findings of stressors being positive and negative towards outcomes, no study has explored their potential interaction effects on each other and we test this effect towards a number of job outcomes across two distinct samples. Overall, we find support for the effect that while challenge stressors are positively related and hindrance stressors negative related to job outcomes combined the detrimental effects of hindrance stressors can be buffered by challenge stressors. The implications are that developing challenge stressors may directly and indirectly benefit employees, especially for those facing high hindrance stressors from their job.

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Stressors

Lazarus and Folkman (1984: 12) defined stress as “a particular relationship between the person and the environment that is appraised by the person as taxing or exceeding his or her resources and endangering his or her well-being”. Stress is an individual’s psychological response to a situation where there is something at stake for the individual and where the situation taxes or exceeds the individual’s capacity of resources (LePine et al., 2004). Stress thus reflects a subjectively laden, emotional response to a situation which is evaluated as either potentially challenging (positive), or harmful (negative), with psychological responses typically characterized by heightened levels of information processing focused on appraising and coping with the particular situation.

Application of stress to organizational settings has led to the development of the concept of work stressors, which have been defined as stressful job conditions (Jex, Bliese, Buzzell & Primeau, 2001), which may serve as antecedents to the development of individuals’ occupational stress levels. Ultimately, such stressors may serve to affect outcomes including job performance (Beehr, Jex, Stacy & Murray, 2000), employee loyalty and perceived organizational support (Haar, 2006), and job satisfaction (Cavanaugh, Boswell, Roehling, & Boudreau, 2000). These later stressor outcomes based on social exchange theory (Haar, 2006), are of importance due to their influence on employee retention (Heskett, Jones, Loveman, Sasser & Schlesinger, 2008). As such, the present study similarly focuses upon social exchange related outcomes.

Despite theoretical advancements, inconsistent empirical results on the relationship between stressors, stress and job outcomes including job satisfaction and support perceptions have generated a need for additional insights in this area (e.g. LePine et al., 2004, LePine, Podsakoff & LePine, 2005). However, while a u-shaped relationship has been hypothesized where it is suggested stress is beneficial towards job outcomes (e.g. performance), although only to a point, and then becomes detrimental (e.g. Yerkes & Dodson, 1908; LePine et al., 2004; Gilboa, Shirom, Fried, & Cooper, 2008), there is a lack of empirical support of this type of relationship (Lienert & Baumler, 1994; Westman & Eden, 1996). One alternative explanation for the mixed empirical results observed for the work-related stressors, stress and job outcomes relationship is that the relationship may depend on the nature of the stressors (Jex, 1998; LePine et al., 2004). For instance, negative relationships have been reported between stress and job-related outcomes associated with stressors such as role ambiguity and role conflict (Beehr et al., 2000; Gilboa et al., 2008), while positive relationships may be observed for workload-related stressors (e.g. high perceived levels of responsibility) and performance (Dollard, Winefield, Winefield & De Jonge, 2000). Similarly, the eustress/distress typology offers eustress as stress resulting from perceived challenge and feelings of fulfillment or achievement (Selye, 1982), thus representing a positive, motivating force. Conversely, distress is thought to occur as an outcome of a worker’s perceived negative burden of work-related activity and links to negative job outcomes. Importantly, this has been supported empirically, specifically through challenge and hindrance stressors (e.g. Cavanaugh et al., 2000; Haar, 2006; LePine et al., 2004).

Challenge stressors refer to positively-perceived challenges in the workplace generating feelings of achievement and fulfillment, and link positively with job outcomes, such as higher job satisfaction and performance (LePine et al., 2005; Cavanaugh et al., 2000). Examples of challenge stressors include high levels of job-related responsibility, opportunities for personal growth and task accomplishment. Alternatively, hindrance stressors refer to negatively-perceived impediments in the workplace, which may contribute to the development of

occupational distress, and link negatively with job outcomes, such as lower job satisfaction (Cavanaugh et al., 2000) and employee loyalty (Haar 2006). Examples of hindrance stressors include a perceived lack of performance guidance, role ambiguity, role conflict and adverse internal politics (Podsakoff, LePine, & LePine, 2007). Based on this two-dimensional perspective, occupational stress tends to be distinguished as to whether it is appraised as promoting (challenge, i.e. positive) or hindering (hindrance, i.e. negative) personal growth, mastery, or future gains (Folkman & Lazarus, 1985). As a result, work stressors may be either positive, negative, or non-existent (null), depending on its nature and the degree experienced by an employee in a given work situation.

Cavanaugh et al. (2000) suggest that differential attitudinal and behavioral work outcomes may occur from specific stressors (challenge or hindrance); while Jex et al. (2001) found that any type of stressor is reliably associated with adverse employee reactions. Podsakoff et al. (2007) report that employees' perceived challenge and hindrance stressors alike may contribute not only to job-related stress, but also to job-related strain, which was found to impact negatively on job satisfaction. This is due to the psychological process of cognitive appraisal, which refers to an individual's evaluative process of categorizing an encounter, with respect to its significance for wellbeing (Lazarus & Folkman, 1984). Stress appraisals include 'harm/loss' resulting from past stress-based experiences, 'threat' resultant from potential future stress-based experiences, and challenge which while similar to threat, is also focused on evaluations of future stress-based experiences.

However, in contrast to threat which is focused on evaluations of future harm or loss, challenge is focused on potential gain or growth obtained from an encounter (Lazarus & Folkman, 1984). The specific outcomes of the cognitive appraisal process may differ as a function of the type of stressor (i.e. challenge or hindrance) and the way it is appraised (Podsakoff et al., 2007). Specifically, in contrast to hindrance stressors, appraisals of challenge stressors typically result in positive emotions and attitudes (Boswell, Olson-Buchanan & LePine, 2004; Podsakoff et al., 2007). Consequently, while although both challenge and hindrance stressors may cause job-related stress, the evoked positive affective responses resulting from challenge stressors should more than offset any negative effects that occur through perceived strain (Podsakoff et al., 2007). Positive emotions including joy, interest and contentment may serve to broaden an individual's momentary thought-action repertoire, which in turn builds the individual's physical, intellectual and/or social resources (Fredrickson, 1998) which may be used in the coping with relevant work-related stress appraisals.

Importantly for the current research, Folkman and Lazarus (1985) posit that specific appraisal types (e.g. threat or challenge) may also occur simultaneously thus potentially contributing to the multi-faceted stress concept concurrently. Threat and challenge appraisals in particular may call for an individual to engage in coping activities to master the psychological impact of these respective appraisal forms (Lazarus & Folkman, 1984), although individual differences may engender divergent cognitive, emotional and/or behavioral outcomes of focal stressor types (Folkman & Lazarus, 1985). While challenge and hindrance stressors have been addressed in previous research, insights into the nature and magnitude of any interaction effects between these types of stressors have not been explored. Further investigation into this area is thus needed to generate a more in-depth understanding of the dynamics pertaining to specific work-related stressor types. For example, do challenge and hindrance stressors interact with each other creating an overall detrimental influence, or do challenge stressors still positively influence outcomes even when hindrance stressors are present?

The next section outlines social exchange theory and the associated outcomes tested in the present study, and then proceeds to develop the interaction hypotheses where we suggest challenge and hindrance stressors may interact with each other. There are then tested on two diverse samples in a New Zealand context. While past research has focused on challenge and hindrance stressors in samples of managers (Cavanaugh et al., 2000) or office workers (Haar, 2006), the present study focuses on (1) blue collar workers and (2) indigenous employees, to provide insights by exploring effects of results on two distinct employee samples.

Social Exchange Theory & Hypotheses

Social exchange theory posits that all human relationships are formed by the use of a subjective cost/benefit analysis and the comparison of alternatives (Blau, 1964). Social behavior may be viewed as an exchange of physical and/or intangible goods, such as the symbols of approval or prestige (Thibaut & Kelley, 1959). Under social exchange theory, individuals who give to others are predicted to attempt to get from them in return, while individuals who receive from others are under pressure to give in reciprocation (Homans, 1958; Thibaut & Kelley, 1959). This bilateral process of influence typically results in a particular balanced state of equilibrium in exchange. For an individual in an exchange, what they give may be perceived as a cost, while what is received may be viewed as a reward, and the individual's behavior changes less as the difference between the two (i.e. profit) is maximized (Homans, 1958). Furthermore, under Siegrist's (1998) effort-reward imbalance model emotional distress and adverse health effects may occur when there is an imbalance between efforts and occupational rewards.

Applying social exchange theory to work-related challenge and hindrance stressor types, Haar (2006) asserts that employees are expected to trade their work-related efforts for the promise of future rewards. Social exchange theory also predicts that employees experiencing negative and/or distressing workplace conditions are thought to reciprocate with negative work attitudes, while those perceiving workplace conditions as challenging and positive are predicted to reciprocate with positive work attitudes (Haar, 2006). Overall, the influence of challenge stressors (positively) and hindrance stressors (negatively) on social exchange related outcomes has been supported (e.g. Bingham, Boswell & Bourdreau, 2005). The social exchange outcomes tested in the present study are explored below.

Employee Loyalty

Employee loyalty is defined as an employee's identification with and allegiance to organizational leaders and the organization as a whole, transcending the parochial interests of individuals, work groups, and departments (Graham, 1991). Representative behaviors include defending the organization against threats; contributing to its good reputation, and co-operating with others to serve the interests of the whole. The construct of loyalty is viewed as a constituent of organizational citizenship behaviors (Graham, 1991; Rusbult, Farrell, Rogers & Mainous, 1988). Based on Graham's (1991) definition, an employee's sense of organizational identification, or sense of 'oneness' with the organization, is implicit in the loyalty concept. Further, employee loyalty comprises both an attitudinal and a behavioral component, which may be likely to correspond to one another in terms of nature/direction and size of effects, although divergences may be observed (Rusbult et al., 1988).

In his study of New Zealand Government workers, Haar (2006) found a significant and positive relationship between challenge stressors and employee loyalty, whilst hindrance stressors were found to exhibit a significant negative influence. These findings concur with those addressed regarding the cognitive appraisal process discussed earlier, which stated that in contrast to hindrance stressors, appraisals of challenge stressors typically result in positive emotions and attitudes (Boswell et al., 2004; Podsakoff et al., 2007). Furthermore, Boswell et al. (2004) found challenge stressors to be positively linked to loyalty, while hindrance stressors were negatively linked to loyalty. As such, workers who report challenging aspects in their job are likely to reciprocate with positive feelings of loyalty, while conversely; negative work-related aspects are predicted to generate reduced feelings of reciprocity and thus, diminished loyalty with employee loyalty being defined as giving support for their organization (Haar, 2006). This leads to our first hypothesis.

Hypothesis 1: (a) Challenge stressors will be positively related, and (b) hindrance stressors will be negatively related, to employee loyalty.

Organizational Commitment

Organizational commitment can relate to the emotional bond an employee has with their organization (Mowday, Porter, & Steers, 1982). Meyer, Allen and Smith (1993) noted that employees whose organizational experiences are consistent with their expectations and needs tend to build a stronger affective attachment to their organization. The construct of organizational commitment, in contrast to employee loyalty, reflects an employee's psychological attachment to the organization (O'Reilly & Chatman, 1986; Meyer & Allen, 1991) and in the present study we define organizational commitment as "the emotional bond an employee has with an organization" (Haar & Spell, 2004, p. 1042).

There are strong links between employee loyalty and organizational commitment, with Coughlan (2005) asserting that some authors use the terms loyalty and commitment interchangeably (e.g. Atwater, Waldman, Atwater, & Carder, 2000; Bhappu, 2000). This is because they both relate to feelings about the organization. However, Jaros, Jermier, Koehler and Sincich (1993) suggested that loyalty and commitment are similar when considering an attitude about the organization and a set of behaviors, but are distinct. While empirical tests of challenge and hindrance stressors have not been undertaken towards organizational commitment, the similarities between employee loyalty and organizational commitment, and the established links between challenge and hindrance stressors and loyalty (Haar, 2006), suggests similar effects are to be found. This leads to our next hypothesis.

Hypothesis 2: (a) Challenge stressors will be positively related, and (b) hindrance stressors will be negatively related, to organizational commitment.

Perceived Organizational Support

Perceived organizational support refers to employee beliefs of how much their organization values them and cares about their well-being (Eisenberger, Huntington, Hutchison & Sowa, 1986). High levels of perceived organizational support tend to be synonymous with high employee contentment (Haar, 2006). Positive linkages between an employee's perceived level of organizational support and loyalty have also been identified in the literature (Rusbult et al., 1988; Haar, 2006). While Jones, Flynn and Kelloway (1995) identified a negative relationship between workplace stress and perceived organizational support, no conceptual distinction was

made in their research regards the specific type of stressor (i.e. challenge or hindrance stressor). This distinction was, however, made by Haar (2006), who found a significant, positive relationship between challenge stressors and perceived organizational support and a significant negative association between hindrance stressors and perceived organizational support. We expect these effects to hold in the current study.

Hypothesis 3: (a) Challenge stressors will be positively related, and (b) hindrance stressors will be negatively related, to perceived organizational support.

Job Satisfaction

Job satisfaction is defined as a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience (Locke, 1976). Previous research indicated a negative association between job-related stressors and job satisfaction (e.g. Gupta & Beehr, 1979). Hence, workers who feel their job is detrimental and negative are less likely to be satisfied with their job. Distinguishing between challenge and hindrance stressor dimensions, Cavanaugh et al. (2000) found that hindrance stressors were significantly and negatively related to job satisfaction, whilst challenge stressors associated positively with this construct. As a result, employees experiencing significant levels of hindrance stressors feel encouraged to reciprocate with lower job satisfaction levels and this reciprocity is the reverse when stressors are viewed positively. Consequently, we hypothesize that challenge stressors will be positively related to job satisfaction, while the converse is tested for hindrance stressors.

Hypothesis 4: (a) Challenge stressors will be positively related, and (b) hindrance stressors will be negatively related, to job satisfaction.

Interaction Effects

While research on challenge and hindrance stressor dimensions has been tested on job outcomes, including social exchange related outcomes, what has been overlooked is the potential influence of one type of stressor interacting on the other. Boswell et al. (2004) stated that "in addition to gaining a better understanding of why perceived stressors may lead to desirable work outcomes, it is also important to investigate whether the relation depends on some other factor" (p. 169). The present study suggests the links between focal stressors and outcomes may be better understood by testing the effects of one stressor as a potential moderator on the other (e.g. hindrance on challenge). Previous research has examined the interacting effects on specific stressor types (typically hindrance type stressors), including the impact of hardiness (Westman, 1990), thinking styles (Abraham, 1997), job control (Boswell et al., 2004) and self-efficacy (Jex & Bliese, 1999). Overall, these studies show that interaction effects are well supported and can provide clearer insights into how stressors influence job outcomes. Indeed, while Folkman and Lazarus (1985) posited positive and negative stressors may also occur simultaneously, no study has tested how they might interact with each other.

The work-family literature has suggested that positive roles might also buffer the negative influence of roles (Greenhaus & Powell, 2006), by positive effects compensating for negative experiences by seeking gratification from the other role. Gareis, Barnett, Ertel and Berkmen (2009) assert that positive aspects might allow the employee to "thrive in the face of risk" (p. 697), thus reducing the strength of conflict by redefining threats as non-threats. Within the stressors context, this might be the positive influence of challenge stressors is such that its

positive influence on job outcomes is when there is also low levels of hindrance stressors, with employees also reporting high hindrance stressors likely to report lower increases in job outcomes when challenge stressors are high.

The present study hypothesizes that hindrance stressors will reduce the positive influence of challenge stressors towards job outcomes, such that high hindrance stressors will benefit least from challenge stressors compared to respondents with low hindrance stressors. This corresponds with the ‘undoing hypothesis’ by Fredrickson (2001) and colleagues (2000) that suggests that positive emotions may serve to ‘undo’ or nullify the cardiovascular after-effects of negative emotions. The undoing hypothesis fits within Fredrickson’s (2001) ‘broaden-and-build’ theory of positive emotions, which posits that while negative emotions have a tendency to narrow individuals’ thought-action repertoires by calling forth specific action tendencies (e.g. attack, flee), many positive emotions *broaden* individuals’ thought-action repertoires, prompting them to pursue a wider range of thoughts and actions than is typical (e.g. play, explore). As such, employees with high levels of challenge stressors may be able to generate broader range of job-related actions and behaviors, which may contribute to enhanced job-related outcomes relative to those with higher levels of hindrance stressors. Consequently, employees with high levels of challenge stressors may be able to outweigh the detrimental effect of negative stressors and thus still report positive job outcomes compared to other workers with only low challenge stressors. This leads to our last set of hypotheses.

Hypothesis 5: Challenge stressors will significantly interact with hindrance stressors towards (a) employee loyalty, (b) organizational commitment, (c) perceived organizational support, and (d) job satisfaction, with effects showing that the highest job outcomes are achieved by employees with high challenge stressors and low hindrance stressors.

Method

Sample and Procedures

We undertook two studies in New Zealand to test the direct and interaction effects hypothesized. Study one was undertaken in a large metropolitan city of New Zealand from a single organization involved in a range of industries, including primary products, construction, un/skilled labor, and other related work. All workers in the sample were blue-collar employees, who typically worked outdoors. Jobs commonly included manual labour (e.g. heavy lifting) and skilled labour (e.g. machinery). From 180 workers, 100 responses were received (56% response rate). On average, participants were 41 years old, male (89%), parents (74%), with a wide range of ethnicities: 42% New Zealand European (white), 28% Pacific Islanders, 22% Maori, 5% Indian and 3% Chinese.

Study two involved surveying Maori employees (the indigenous people of New Zealand). As Maori make up only 13% of the New Zealand workplace, purposive sampling was undertaken. We also improved the methodology by collecting data in two waves: survey one (predictors) followed by survey two (outcomes) one month later. From a total pool of 600 potential respondents, matched surveys were returned by 275 respondents (45.8% response rate). Respondents ranged across a variety of industries, with an average age of 38.7 years (SD=11.3), and the majority being parents (69%) and female (65%). We tested a range of job outcomes between the two studies to aid generalizing the findings.

Measures (Study 1)

Challenge stressors and *hindrance stressors* were measured using an 11-item scale developed by Cavanaugh et al. (2000). Questions followed the stem “Things that cause you stress” and were coded 1=no stress, 5=great deal of stress. Sample questions include “The number of projects and/or assignments I have” (challenge stressor), and “The amount of red tape I need to go through to get my job done” (hindrance stressor). Previous studies have supported the two dimensions (e.g. Cavanaugh et al., 2000; Haar, 2006) and we also find support for a two factor measure (eigenvalues 2.29 and 2.01, accounting for 38.2% and 33.4% of the variance respectively). Challenge stressors had a Cronbach’s alpha of .75 and hindrance stressor had a Cronbach’s alpha of .80.

Employee Loyalty was measured using the ten-item measure by Rusbult et al. (1988), coded 1=strongly disagree, through to 5=strongly agree. Sample questions include “I will say good things about this organization even when other people criticize it”, and “I sometimes wear clothing (tie, pin, jacket, etc.) that bears the organization’s symbol or insignia (or I would do so if my organization had such clothing)”. This scale had a Cronbach’s alpha of 0.91.

Organizational Commitment was measured using 6-items of Meyer et al.’s (1993) subscale of organizational commitment towards affective commitment. Responses were coded 1=strongly disagree to 5=strongly agree. A sample item is “I do not feel “emotionally attached” to this organization” (reverse coded). This scale had a Cronbach’s alpha of 0.78.

Measures (Study 2)

Challenge stressors and *hindrance stressors* were measured using the 11-item scale used in study 1 (Cavanaugh et al., 2000). The two factor solution was confirmed with factor analysis (eigenvalues 4.130 and 2.820, accounting for 37.5% and 25.6% of the variance respectively). Challenge stressors had a Cronbach’s alpha of .90 and hindrance stressor had a Cronbach’s alpha of .80.

Employee Loyalty was measured using a short version of Rusbult et al. (1988) used in study 1, coded 1=strongly disagree, through to 5=strongly agree. Four items were used, and the scale had a Cronbach’s alpha of 0.70.

Perceived Organizational Support was measured using a ten-item scale developed by Eisenberger et al. (1986), which was coded 1=strongly disagree, through to 5=strongly agree. Questions included “The organization really cares about me” and “The organization strongly considers my goals and values”. This scale had a Cronbach’s alpha of 0.92.

Job Satisfaction was measured using 3-items from Judge, Bono, Erez and Locke (2005), coded 1=strongly disagree, through to 5=strongly agree. A sample question is “Most days I am enthusiastic about my work”. This scale had a Cronbach’s alpha of 0.83.

Control Variables

A number of demographic variables were controlled for which may have a potential influence on employees' perceived stressors, which are widely-used in the stress and conflict literature (Anderson, Coffey & Byerly, 2002; Major, Klein & Ehrhart, 2002). These were *Age* (in years), *Gender* (female=1, male=0), *Parental Status* (1= parent, 0=no dependents), and *Hours Worked* (total hours per week including overtime).

Data Analysis

The skewness and kurtosis scores for the present study's predictor and outcomes variables were all well within acceptable limits. To examine the direct effects of challenge and hindrance stressors (hypotheses 1-2) and the indirect effects of these two stressors on outcomes (hypothesis 3), separate hierarchical regressions were conducted with outcomes: employee loyalty and organizational commitment (study 1) and employee loyalty, perceived organizational support and job satisfaction (study 2). Step 1 contained the control variables (age, gender, parental status, and hours worked). The predictor variables (challenge stressors and hindrance stressors) were entered in Step 2. Step 3 had the interaction effects (challenge stressors multiplied by hindrance stressors). Mean centering of the interaction terms was done to address issues of multi-collinearity (Aiken & West, 1991). Following discussions regarding relaxing the criteria for determining significant interaction effects (Aguinis & Stone-Romero, 1997; Stone & Hollenbeck, 1989), a level of $p < .1$ was adopted for interaction effects on study 1 (due to its smaller sample size), and $p < .05$ for all direct effects (both studies).

Results

Descriptive statistics for the study variables are shown in Table 1 (study 1) and Table 2 (study 2).

Table 1: Correlations and Descriptive Statistics of the Study 1 Variables

Variables	M	SD	1	2	3	4	5	6
1. Age	40.9	11.4	--					
2. Hours Worked	50.1	6.5	.23*	--				
3. Employee Loyalty	3.3	.91	-.23*	-.09	--			
4. Organizational Commitment	3.0	.60	-.04	-.17	.62**	--		
5. Challenge stressors	2.7	.76	-.01	.26**	.24*	.25†	--	
6. Hindrance stressors	2.8	1.1	.07	.26**	-	-.45**	.40**	--
					.37**			

N=100. † $p < .1$, * $p < .05$, ** $p < .01$

Table 2: Correlations and Descriptive Statistics of the Study 2 Variables

Variables	M	SD	1	2	3	4	5	6	7
1. Age	38.7	11.3	--						
2. Hours Worked	40.2	9.7	.30**	--					
3. Employee Loyalty	3.7	.78	.01	.02	--				
4. Perceived Organizational Support	3.7	.79	.04	.07	.55**	--			
5. Job Satisfaction	3.2	.76	-.03	-.05	.50**	.26**	--		
6. Challenge stressors	2.8	.88	.08	.26**	-.05	.00	-	--	
							.17**		
7. Hindrance stressors	2.6	.91	.22**	.15*	-	-	-	.40**	--
					.45**	.31**	.33**		

N=275. *p<.05, **p<.01

Table 1 shows that for study 1, challenge stressors is significantly correlated with hindrance stressors ($r = .40, p < .01$), employee loyalty ($r = .24, p < .05$), organizational commitment ($r = .25, p < .1$), and hours overtime worked ($r = .26, p < .01$). Hindrance stressors are significantly correlated with employee loyalty ($r = -.37, p < .01$), organizational commitment ($r = -.45, p < .01$), and hours overtime worked ($r = .26, p < .01$). Finally, employee loyalty is significantly correlated with organizational commitment ($r = .62, p < .01$). Table 2 shows that for study 2, challenge stressors is significantly correlated with job satisfaction only ($r = -.17, p < .01$) and this direction is unexpectedly negative. It does not correlate significantly with the other two job outcomes. Hindrance stressors are significantly correlated with employee loyalty ($r = -.45, p < .01$), perceived organizational support ($r = -.31, p < .01$), job satisfaction ($r = -.33, p < .01$) age ($r = .22, p < .010$) and hours worked ($r = .15, p < .05$). As expected, the three job outcomes are all significantly related to each other (all $.25 < r < .55$, all $p < .01$).

Results of the hierarchical regressions for direct and indirect effects towards job outcomes (Hypotheses 1 to 3) are shown in Tables 3 and 4.

Table 3: Challenge and Hindrance Stressors towards Job Outcomes (Study 1)

Variables	Employee Loyalty			Organizational Commitment		
	Step 1 Controls	Step 2 Predictors	Step 3 Interaction	Step 1 Controls	Step 2 Predictors	Step 3 Interaction
Age	-.28	-.18	-.17	-.11	-.05	-.05
Gender	-.10	-.05	-.03	-.07	.03	-.01
Parental Status	.14	.03	.03	.15	.04	.05
Hours Worked	-.04	-.02	-.06	-.19	-.15	-.13
Challenge Stressors		.46***	.47***		.51***	.49***
Hindrance Stressors		-.56***	-.59***		-.62***	-.60***
Challenge Stressors x Hindrance Stressors			-.13†			-.11

R ² change	.06	.29***	.02†	.05	.39***	.01
Total R ²	.06	.35	.37	.05	.44	.45
Adjusted R ²	.02	.31	.32	.00	.38	.38
F Statistic	1.378	7.889***	7.153***	.688	6.712***	5.915***

†p< .1, *p<.05, **p<.01, p< .001. Standardized regression coefficients, all significance tests were single-tailed.

Table 4: Challenge and Hindrance Stressors towards Job Outcomes (Study 2)

Variables	Employee Loyalty			Perceived Organizational Support			Job Satisfaction		
	Step 1 Controls	Step 2 Predictors	Step 3 Interaction	Step 1 Controls	Step 2 Predictors	Step 3 Interaction	Step 1 Controls	Step 2 Predic- tors	Step 3 Interac- tion
Age	-.05	.03	.02	-.01	.11	.11	.06	.14	.15
Gender	-.11	-.11	-.11	-.02	-.01	-.01	-.01	.02	.02
Parental Status	.12	.12	.11	.07	.06	.05	-.04	-.02	-.02
Hours Worked	-.04	.00	-.01	.01	.02	.01	.04	.06	.07
Challenge Stressors		-.06	-.06		.12*	.12*		.16*	.16*
Hindrance Stressors		-.34***	-.36***		-.55***	-.57***		-.46***	-.44***
Challenge Stressors x Hindrance Stressors			.11*			.11*			-.08
R ² change	.02	.13***	.01†	.00	.25***	.01*	.01	.16***	.01
Total R ²	.02	.15	.16	.00	.26	.27	.01	.17	.17
Adjusted R ²	.01	.13	.14	.00	.24	.25	.00	.14	.14
F Statistic	1.565	7.291***	6.796***	.275	14.151***	12.848***	.257	6.081*	5.378*
								**	**

†p< .1, *p<.05, **p<.01, p< .001. Standardized regression coefficients, all significance tests were single-tailed.

Direct Effects

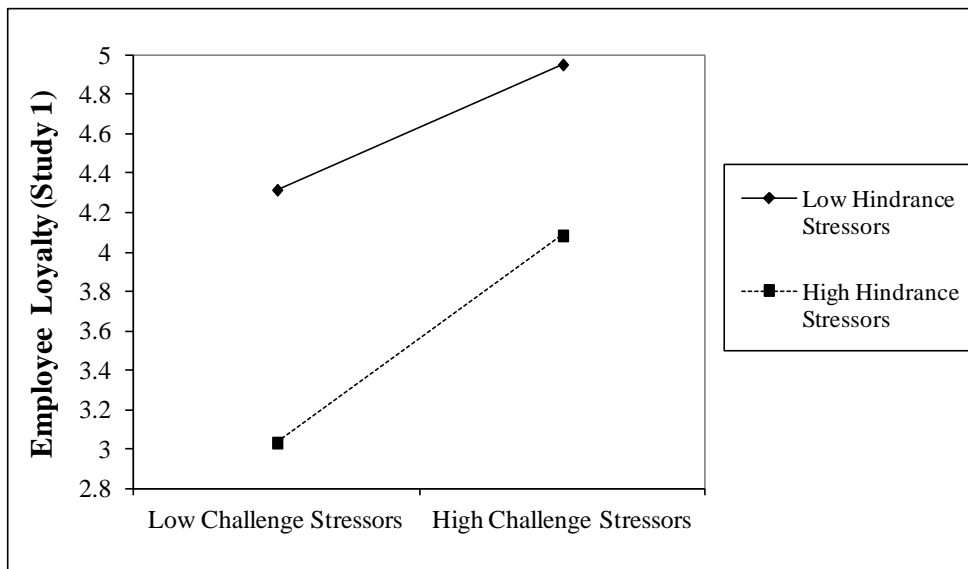
Table 3 shows that for study 1, both challenge and hindrance stressors predicted employee loyalty in the expected directions, with challenge stressors being positively associated ($\beta = .46, p < .001$) and hindrance stressors being negatively associated ($\beta = -.56, p < .001$). Step 2 change shows that the two types of stressors account for a large 29% of the variance towards employee loyalty. Towards organizational commitment, similarly, challenge stressors ($\beta = .51, p < .001$) and hindrance stressors ($\beta = -.62, p < .001$) predict in the expected directions. Similarly, Step 2 change shows that the two types of stressors account for a large 39% of the variance towards organizational commitment. Consequently, there is support for Hypotheses 1 and 2 from study 1. Table 4 shows that for study 2, while hindrance stressors predicted employee loyalty in the expected directions ($\beta = -.34, p < .001$), challenge stressors was non-significant. Step 2 change shows that the two types of stressors account for a modest 13% of the variance towards employee loyalty. Towards perceived organizational support, challenge stressors ($\beta = .12, p < .05$) and hindrance stressors ($\beta = -.55, p < .001$) both predict in the expected directions, and from Step 2 change, it is shown that these stressors account for a large 25% of the variance. Similarly, towards job satisfaction, challenge stressors ($\beta = .16, p < .05$) and hindrance stressors ($\beta = -.46, p < .001$) both predict in the expected directions and

account for a modest 16% of the variance (Step 2 change). Overall, there is support for Hypothesis 1b only from study 2 and support for Hypotheses 3 and 4 from study 2. Overall, the hypotheses of the direct effects of stressors to outcomes were broadly supported.

Interaction Effects

Tables 3 and 4 show support for a number of interaction effects between the two stressor dimensions, with study 1 hindrance stressors interacting significantly with challenge stressors towards employee loyalty ($\beta = -.13$, $p < .1$), accounting for an additional 2% variance ($p < .1$). In study 2, there are similar significant interaction effects towards employee loyalty ($\beta = -.11$, $p < .05$), accounting for an additional 1% variance ($p < .1$), and perceived organizational support ($\beta = -.11$, $p < .05$), accounting for an additional 1% variance ($p < .05$). To facilitate interpretation of the significant interaction effects, interactions are presented in Figures 1-3.

Figure. 1 Interaction between Stressors with Loyalty (Study 1) as Dependent Variable



Plotting the interaction terms (Figure 1) illustrates that in study 1 when challenge stressors are low; there is a significant difference between respondents, with those registering high levels of hindrance stressors reporting much lower levels of employee loyalty than those respondents with low levels of hindrance stressors. When we compare these to respondents with high challenge stressors, there is an increase in employee loyalty for all respondents as expected. However, those with high hindrance stressors still report significantly lower levels of employee loyalty than those with high challenge stressors, supporting the interaction effect hypothesis 5a.

The interaction terms for study 2 (Figures 2 and 3) are similar and are discussed together. At low levels of challenge stressors, higher job outcomes (employee loyalty and perceived organizational support) are reported by respondents with low hindrance stressors compared to respondents with high hindrance stressors. At high levels of challenge stressors these effects remain relatively stable, with respondents with low hindrance stressors still reporting levels of job outcomes superior to respondents reporting high levels of hindrance stressors. Overall, this supports the interaction effect hypothesis and combined provides support for Hypotheses 5a and 5c.

Figure. 2 Interaction between Stressors with Employee Loyalty (Study 2) as Dependent Variable

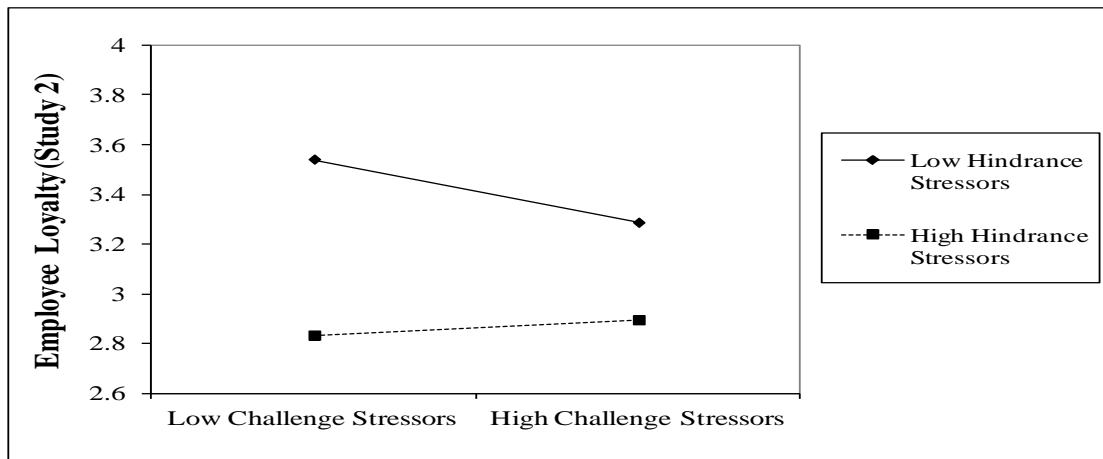
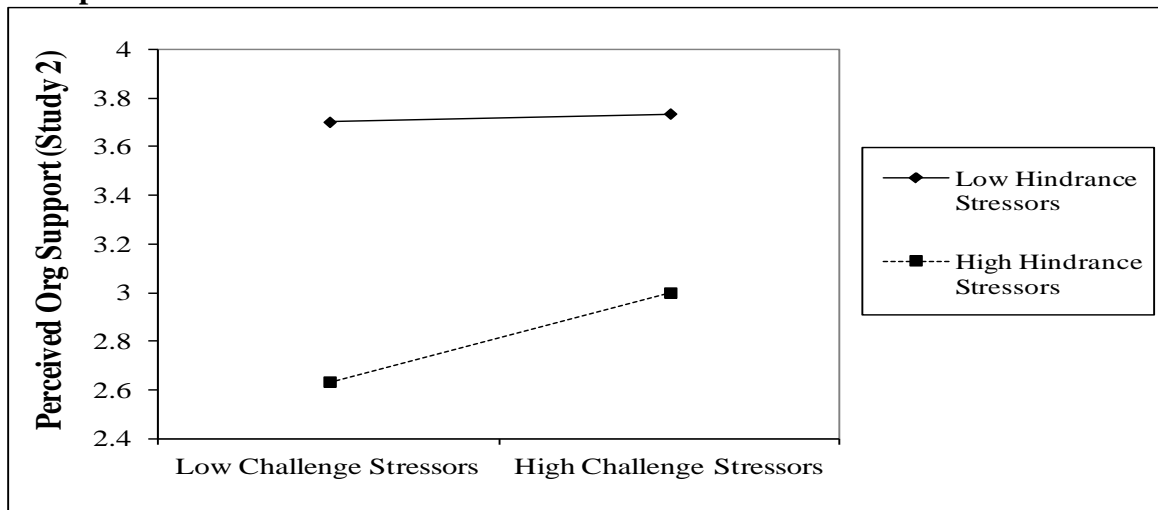


Fig. 3 Interaction between Stressors with Perceived Organizational Support (Study 2) as Dependent Variable



The overall strength of the models are significant and substantial in study 1: employee loyalty ($R^2 = .374$, $F = 7.153$, $p < .001$) and organizational commitment ($R^2 = .45$, $F = 5.915$); and in study 2: employee loyalty ($R^2 = .16$, $F = 6.796$, $p < .001$), perceived organizational support ($R^2 = .27$, $F = 12.848$, $p < .001$), and job satisfaction ($R^2 = .17$, $F = 5.378$, $p < .001$). Finally, the variance inflation factors (VIF) were examined for evidence of multicollinearity, with Ryan (1997) suggesting multicollinearity can be detected when the VIF values equal 10 or higher. However, all the scores for the regressions were below 1.4 (study 1) and 1.6 (study 2) indicating no evidence of multicollinearity unduly influencing the regression estimates.

Discussion

The first purpose of the present study was to investigate direct effects of challenge and hindrance stressors on the job outcomes associated with social exchange theory: employee loyalty, organizational commitment, perceived organizational support, and job satisfaction. Importantly, we added to the literature by testing these effects on two diverse New Zealand

populations: (1) blue collar employees and (2) indigenous employees. This is important to broaden the types of employee groups tested, as the current literature has focused predominately on managers. Broadly, the results were aligned with the literature. For example, while Cavanaugh et al. (2000) and Haar (2006) found alternative positive and negative influences of challenge and hindrance stressors respectively towards outcomes including job satisfaction, loyalty, and perceived organizational support, and our findings were relatively similar if not exact. In study one, challenge and hindrance stressors acted as expected towards employee loyalty and organizational commitment, highlighting these effects amongst blue collar workers. As such, the benefits of positive stressors may be universal by job type, or at least extends similarly into this work group.

The second study, on Maori, the indigenous employees of New Zealand, found similar positive and negative influences (as expected) towards perceived organizational support and job satisfaction, but only a direct and negative influence towards employee loyalty (from hindrance stressors), with challenge stressors not playing any role at all. Therefore, hindrance stressors were uniformly found to influence (negatively) job outcomes amongst an indigenous employee population, and challenge stressors also acted as expected in the majority. Again, with a diverse and unique sample in study two that differs from the usual study samples (e.g. Haar, 2006; Cavanaugh et al., 2000), the direct effects of stressors appears supported and further add to the universal nature of positive and negative stressors in the workplace. As such, these effects appear to be generalized to diverse employee populations including manual laborers.

Overall, the direct effects support social exchange theory where increased levels of challenge (positive) stressors, might be viewed by employees as a valued benefit (e.g. fulfilling jobs), leading employees to reciprocate by exhibiting higher loyalty and commitment towards the organization, feeling like they receive great support and responding with higher satisfaction with their job. Furthermore, hindrance stressors were found to have a negative effect on these outcomes, such that the emotive bonds of loyalty and commitment feel reduced due to lower feelings of reciprocity, and this also leads to lower perceptions of support and less satisfaction in the job. Thus, perceived job-related hindrance stressors, such as conflicting role designations, appear to result in limited perceived job benefits and thus, result in lower levels of reciprocal job-related attitudes. Overall, these findings are supportive of a large body of work on stressors and job outcomes associated with social exchange theory (Cavanaugh et al., 2000; Haar, 2006).

The major contribution of the present study was investigating the potential interaction effects of challenge stressors and hindrance stressors, to see what effect (if any), these two types of stressors would have on job outcomes. This approach has not currently been explored and provides a new direction for the hindrance and challenge stressors literature. Cavanaugh et al. (2000) advocated the simultaneous investigation of positive and negative stressors on job-related outcomes for enabling identification of a comprehensive range of job outcomes. Overall, there is support for these interaction effects in both samples. For blue-collar workers, high levels of challenge stressors will significantly influenced by hindrance stressors, with high levels of hindrance stressors leading to lower overall increases in employee loyalty compared to those respondents with low hindrance stressors. These effects are also similar amongst the Maori employee population, which ultimately shows a similar finding of superior employee loyalty through lower levels of hindrance stressors, although high challenge stressors were slightly detrimental to loyalty, reflecting the non-significant direct effect amongst this population. Furthermore, towards perceived organizational support, Maori

employees reported high levels of support at low levels of hindrance stressors and this was relatively stable amongst levels of challenge stressors. However, for Maori respondents with high levels of hindrance stressors there was a significant increase in perceived organizational support at high levels of challenge stressors, highlighting a stimulating benefit for this group. However, the levels of perceived organizational support were still significantly different between the two groups, highlighting the overall benefit of low hindrance stressors. Combined, we find support for the hypothesis that these types of stressors can influence each other and provide more in-depth understanding of how employees react to stressors towards social exchange outcomes.

Contributions & Implications

Overall, the present study makes several contributions, including providing further empirical support for the two-dimensional nature of work-related stress as measured by challenge and hindrance stressors and extending this typology beyond the managerial realm (Cavanaugh et al., 2000) to the context of blue collar workers in New Zealand. Furthermore, the unique employee population of New Zealand Maori further highlights the applicability and largely uniform effects of stressors on job outcomes. Given the wide range of professions in the Maori study, and the blue collar focus of study one, we can postulate that the positive and negative influence of stressors is likely to extend beyond managers to employees in general. The last contribution is that challenge and hindrance stressors might influence job outcomes together in an indirect way (in addition to direct effects), and this was largely supported, with high challenge and low hindrance stressors typically providing the optimal response from employees through higher job outcomes. This sheds new light on the manner that stressors may influence job outcomes and provides support for stressors beyond the direct effect on outcomes. Furthermore, these effects are found in both studies which provide a greater sense of confidence in generalizing these effects.

The findings have implications for HR managers and researchers. Our results indicate that the optimal benefits for employees job outcomes is best achieved at low levels of hindrance stressors and high levels of challenge stressors. This has implications for job design and workload management issues, such as limiting hindrance and supported challenge factors. Furthermore, our findings also showed that hindrance stressors had a consistently negative impact on all four job outcomes studied, encouraging greater focus on these factors by HR managers. As such, organizations wanting greater reciprocity from employees might seek to minimize the detrimental influences of hindrance stressors, perhaps through providing unambiguous, structured job role descriptions that set out employee role expectations. Similarly, developing greater chances for responsibility and challenging roles at work might enhance the challenge stressors of employees for enhanced positive effects.

Limitations, Future Research, & Conclusion

Despite its contributions there are a few limitations to highlight, especially associated with the first study. A small sample size ($n=100$), data collected from a single organization, and at a single time, clearly limits how much we can generalize the findings. However, these effects were similar to those found in study two, which includes a larger sample size, multiple industries, and separation of predictors and outcomes by a one month period. Furthermore, the unique populations of blue-collar workers and indigenous employees also provide unique

contextual contributions to the wider international literature. Furthermore, while the cross sectional nature of study one is open to issues of common method variance, this type of error is less susceptible with interaction effects (Evans, 1985), indicating the findings in study one are not influenced by a single data collection approach.

Future studies may wish to adopt different types of job outcomes, in particular performance based measures such as organizational citizenship behaviors to test whether the positive influence of challenge stressors extends into these dimensions. In addition, the influence of positive and negative stressors on health outcomes (e.g. job burnout, depression) have been largely under explored in the literature, and we encourage studies to test these, especially to determine whether 'good' stress (challenge stressors) is truly good for an employee's mental health. In conclusion, this study supports the direct and interaction effects of challenge and hindrance stressors on social exchange based outcomes, and provide strong evidence for its generalization through two diverse employee groups. Ultimately, we find employees respond best when they report greater challenge but less hindrance stressors.

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CHRONICLE: FEBRUARY 2012 – MAY 2012

FEBRUARY 2012

The NZ Institute of Economic Research reported on their analysis of the controversial '90-day Trial Period', covering the period April and September which was straight after the new 90-day trial period regulation for new workers in small firms was introduced (see January Chronicle). Their Chief Economist Bill Kaye-Black told the *Dominion Post* that the Institute's analysis suggested the new reform has prompted a significant jump in hiring and job numbers, even though overall employment figures were down. The Institute believed that the policy would have a positive impact though with so limited data it was too early to establish this firmly. In response, Council of Trade Unions' President, Helen Kelly, said that a firm's economic situation was the real influence in a hiring decision.

Unsurprisingly, the *Dominion Post* reported on a survey that found that more than 65 per cent of New Zealanders think that public holidays that fall on a weekend should be transferred to a Monday ("Mondayising"). A Labour MP intends to introduce a Bill to Parliament to ensure that "Mondayising" holidays such as Waitangi Day and Anzac Day can take place.

Two employment law specialists reminded employers of their responsibility to carefully look for re-development opportunities when restructuring staff who otherwise might be made redundant, in preference over advertising new positions. Several recent employment cases confirmed that a "re-structured" employee with the necessary skills to carry out a new role, even if some up-skilling is required, places an obligation upon the employer to appoint them.

A long-term NZ Customs Service employee, who suffered from major depressive illness and alcohol abuse, was his case of unfair dismissal. He was dismissed from his off-shore posting as a Customs Liaison Office. During his service, he had been exposed to traumatic scenes and experiences during the 2008 tsunami relief effort. The officer claimed that events, that gave rise to his dismissal, would not have occurred if the service had provided appropriate and necessary support after his deployment. The Employment Relations Authority found that the officer's dismissal was unjustified on procedural grounds as Customs had not undertaken a proper investigation into the individual's circumstances. One commentator suggested that this was a very sharp reminder to employers to handle dismissals with great care, particularly when employees are working with material or in situations which are likely to damage their health.

The Christchurch earthquake aftermath poses many thorny employment law problems for both employers and workers, according to lawyer Peter Cullen in the *Dominion Post*. Staff will want to know how long they are going to be paid wages and employers will want to know how long they will have to pay workers who are not working. In some cases, employees are unable or unwilling to start working. Workers, who are suffering psychologically, should be able to use their sick leave entitlements but this could only be a temporary measure. Those who are unable to work because they are not allowed into the workplace for safety reasons may have to be carried by the employer. Where the business is not destroyed but trading is unlikely to begin soon or as before, the employer may look at making workers redundant. Whilst these issues appear relevant only to Christchurch they do illustrate the need for a balance between employer and employee needs and rights.

Employers were reminded to have proper checks and balances in place when employees are members of the family. When family employment issues go wrong the damage is likely to be worse than in a normal employment relationship. Kapiti Diesel lost \$443,000 when a family member helped herself to cheques and funds.

A case brought before the full Employment Court raised the question of whether or not an employee of a labour hire company is in fact an employee of the end user of their labour. The Court stressed that this was, to their knowledge, the first time such a case had been brought against the end user of a labour contract. According to the *Southland Times*, the case has been referred from the full court back to a sole Employment Court judge.

In a rather bizarre case, a long-term employee sought to have his dismissal overturned at the Employment Court. The employee had accidentally dialled his manager from a mobile phone in his trouser pocket while he was making critical comments about his employers and discredited his company's products to a business colleague. He had worked for the company for 39 years and sought to overturn his dismissal after the accidental phone call. The Employment Court reserved its decision about the dismissal based on the caller's "completely disloyal and inappropriate comments".

MARCH 2012

Throughout March the media carried information and articles concerning changes to the Employment Relations Act, due for introduction on April 1st. While most media reports focused on the '90-day Trial Period there were also reports about changes to the Holidays Act and to the Employment Institutions and how unions' right to access to workplaces was being limited (see February Chronicle).

The *Waikato Times* reported that a local educator expressed concern that the changes meant that young graduates would be unfairly treated under the new 90-day trial period. She warned that the young graduates were ill-equipped to negotiate with management leaving them vulnerable to mismanagement. However, some students suggested that the trial period was a disincentive while others thought that it might provide more opportunities and make them work harder.

CTU leader Helen Kelly wrote in the *Dominion Post* that the changes would impact on vulnerable workers in a period with high unemployment and negative public policy changes. There was already a strong perception in the workforce that this Government favoured business interests over those of workers. It was deferential to business but dismissive of unions. In difficult times, the Government had opted for large tax cuts for those on high incomes.

According to the *Bay of Plenty Times*, confidence was expressed by local employers that the trial period would offer a boost in business confidence in recruiting staff and impact positively on job growth. Employers also felt that the implementation of a robust system, which ensured that a signed employment contract was in place prior to work starting, was vital if a trial period was implemented.

Another key change would allow employees to request to “cash up” a week of their annual leave, though the pay-out could only happen if the employer agrees to it. There were media reports suggesting that employers could pressure employees to “cash up” while it was also pointed out that surveys had found that some employees were interested in “cashing up”.

Changes to the powers of the Mediator were discussed in the *Southland Times*. From April, they would be able to make recommendations that, when accepted by both parties, would be enforceable. This new role was seen as a quicker and more efficient way to deal with low level disputes and effectively reduce the number of matters going to the Employment Relations Authority.

Furthermore, a new penalty provision would be available to punish those that "without sufficient cause, obstruct or delay an authority investigation". Where the ER Authority had determined that a matter was frivolous and/or vexatious and had dismissed it, the party can appeal to the Employment Court which can then direct the matter back to the ER Authority. The Employment Court was also given additional power to dismiss any case they see as frivolous or vexatious. The maximum penalty for this infraction would be \$10,000 for individuals and \$20,000 for companies. An action for a penalty can be initiated by the ER Authority itself or by one of the parties involved.

Tourists and other visitors could not access Auckland's Sky City Casino for a time as a bitter dispute over pay and working hours spilled on to the streets (see January Chronicle). The two unions involved, Unite and the Service and Food Workers, eventually agreed with police and Sky City management to move away from the main doors to allow negotiations to resume. Unite's Director Mike Treen said unions were also seeking regular shifts with secure hours for part-time staff: “They have started hiring mainly part-time staff for table games dealers. There are almost no rights for part-time staff except for a guaranteed eight hours a week.” The unions also asked for a 5 per cent pay rise, reduced to 4 per cent during the negotiations. Sky City was offering 3 per cent a year for the next three years. Sky City's Spokesperson Scott Campbell said the unions had been calling brief strike actions on and off since negotiations started last November.

An Asian baker was ordered to pay more than \$220,993 to a trio of illegal immigrant workers he "grossly exploited". The Employment Relations Authority ruled that Taumarunui Bakery owner Hon Ly had exploited the workers and neglected to pay them the minimum wage. The men had arrived on visitor permits and had worked at the bakery illegally for about six years before they were deported back to Thailand. Their employer had relied on that they were unlikely to complain about their predicament because of their immigration status. The only days they got off were during statutory holidays when the bakery was closed and over the Christmas-New Year period. Mr Ly provided them with a house "with very little in the way of chattels", they were paid under the minimum wage, tax forms were not signed and no time records of their work were kept.

The Employment Relations Authority found that a woman was justifiably dismissed for using her employer's adult website to advertise photos of her daughter. The woman was dismissed as a business account manager for Apollo Marketing Advertising in Auckland (which operates sexual services website *Adultspace*), when she was caught using the website to advertise her own sexual email service, *Fantasemail*. She had also posted photos of her daughter in the hope she would gain promotional and modelling work.

A long-running issue to be given plenty of media space during March was the matter of staff required to “sleep over” while on the job (see October 2010 Chronicle). IHC’s Spokesperson Philippa Sellens said the organisation could not afford the estimated liability in back pay of \$176m, on top of wage costs which would rise by about \$30 million a year: “We’re looking to Government for a solution to this because we simply cannot pay that money.” The IHC had appealed again, despite three court rulings against their interpretation. An application was lodged with the Supreme Court to grant leave to appeal against a Court of Appeal decision which ruled last month that overnight “sleeping over” fitted the legal definition of “work”, and that workers should be paid the minimum hourly wage for those overnight stays. Otago University’s constitutional law expert Andrew Geddis said he did not think the Supreme Court would reach a different finding: “[The Court of Appeal has] made a sound judgment in law. It just so happens it has pretty unpalatable consequences for the Government.”

APRIL 2012

The media reported on a raft of changes to benefits, tax, statutory minima and employment relations legislation which came into effect on 1 April. There was an increase to superannuation with a married couple getting \$522.96, up by just over \$10 from \$511.06. A single student, under 24 years of age, would now get a gross weekly allowance of \$187.52. The adult minimum wage was increased by 25 cents to \$13.00. Company tax was decreased to 28 per cent from 30 per cent.

Most of these increases were mainly linked to the rise in inflation – except the company tax reduction – and they proved rather uncontroversial. The changes to employment relations regulations, on the other hand, still created considerable media debate (see March Chronicle). The 90-day trial period was hotly debated and unions warned that this could become a major issue for many new employees. However, newspapers reported that many employers had already adjusted their employment agreements to take advantage of the 90-day rule. There was less debate about the changes to the Holidays Act and to the role and processes of the Employment Institutions.

More than 500 soldiers, sailors and air force staff could soon face big pay cuts or lose their jobs under a plan to take them out of uniform and rehire them as civilians. Staff at Trentham was told that the Defence Force had so far identified 135 positions in the navy, 220 in the army and 155 in the air force that will be “civilianised”. But many more could follow. According to a statement obtained by *The Dominion Post*, Defence Chief Rhys Jones said that 500 people would be affected in “this initial phase” and “we will be considering further civilianisation”. The Government said in its Defence White Paper, published in November 2010, it was estimated that up to 1,400 jobs would be affected.

The long running negotiations between government and teachers were finally over. According to the *Dominion Post*, unionised secondary teachers will get a pay rise of up to 3 per cent after ratifying the collective agreement. Post Primary Teachers’ Association’s President Robin Duff said that teachers would get a pay increase of up to 3 per cent, a one-off payment of \$300, extra time for heads of departments to support new teachers, additional relief days for kapa haka and Auckland Polynesian festival *Polyfest*, and the introduction of sabbatical leave.

A United Nations' expert on human trafficking has called for New Zealand to act over allegations of slavery on foreign charter boats. This came at the same time as both Labour Minister Kate Wilkinson and Fishing Minister Phil Heatley denied that there was any problems with the approximately 2,500 men working on 21 ageing Asian boats. The *Sunday Star-Times* reported that there were 'sweatshop conditions' on the boats: sailors were beaten and forced to work for many days without rest, earning between \$260 and \$460 a month. Their catch, worth about \$300 million a year, is marketed to the world as "Produce of New Zealand". However, Cabinet Minister Phil Heatley told Parliament there was not a problem and said the previous Labour government had made changes to the law that were "entirely adequate". Mrs Wilkinson said the Labour Department had a regular audit programme of labour standards on fishing boats. "These workers aren't New Zealand citizens, aren't employed on New Zealand-operated vessels, they often don't speak English and leave our waters once fishing is finished."

When is the use-by date for a disciplinary warning? Many employers specify use-by dates on disciplinary warnings issued to employees. In other words, when the warning is issued it is stated to expire on a particular date - typically in six months' time after the incidence. However, in a grievance case, the Employment Relations Authority found that the warning was current from the date it was issued, not the date the misconduct occurred. According to the *Dominion Post*, the ER Authority's reasoning was that if the warning was backdated to the date of the incident, the employer's process of investigation would become "somewhat perfunctory" in that the decision would be "retrospective" and open to an allegation of bias. Instead the authority found that the whole process leading up to the issuing of the warning was relevant to the process. The warning started when it was issued not when the incident occurred that led to it.

According to an article in the *Dominion Post*, many employers would love to get rid of some of their 'baby boomer' employees but they are often unsure how to go about it. Thus, employers will be watching with interest the case of the Air New Zealand pilots, forced to retire at 60, scheduled for the Employment Court later this year. Paul Roth, an Otago University employment law specialist, said that employers were often struggling with ways to get older employees to retire without discriminating against them.

The *NZ Herald* advised that the Minister of Labour Kate Wilkinson had told Employment Relations Authority's Chief that his warrant would not be renewed when it expired on May 18. The former employment relations manager of the Auckland District Health Board had been a member of the ER Authority since it was created 11 years ago and had been its chief for seven years. But he is not a trained lawyer. He said the Government wanted legally trained people in the ER Authority. The move came two weeks after legal changes came into force, requiring the ER Authority to allow legal cross-examination of witnesses and gave the Authority's Chief powers to issue instructions to Authority members to ensure the Authority acts more "judicially" (See March Chronicle). Three other members of the 17-member Authority were not reappointed when their terms expired last year. All their replacements had law degrees. Eight other Authority members' warrants will expire this year. An advertisement for their jobs published in May said preference would be given to candidates with a legal degree. Secretary of the Engineers' Union Andrew Little said the changes were disturbing. "The Government has had pressure from employers they want lawyers running the thing. It makes the authority process far more complex and intimidating."

According to media reports, the Meat Workers Union had secured a “victory” against Affco New Zealand. Following a complaint from the union, an Employment Court decision would force the meat processing company to reconsider how it recruited and dismissed seasonal workers after a complaint by the union. The union said Affco had breached a historical “seniority clause” by laying off experienced union members nationwide, ahead of newer recruits. In the decision, Judge Anthony Ford ruled that Affco was required to use the seniority clause and employ and lay off seasonal workers in accordance with their initial start date, regardless of their contract. The union’s General Secretary said the decision justified its concerns: “That’s the way people have been laid off and rehired in the industry for a long time, and because it’s a seasonal industry, it’s one of the most practical ways you can do it.” He confirmed the union would seek damages over the issue, which another union’s spokesperson said had affected at least 400 workers this season.

Sex reared its head during a case reported in both the *NZ Herald* and *Nelson Post*. Air New Zealand is fighting the return to work of a pilot who slept with a flight attendant and drank the night before a flight. The Employment Court ordered the airline’s subsidiary Air Nelson to give the man, who has name suppression, his job back. The court also ordered he be paid \$10,000 compensation and \$51,000 for lost wages. The employment investigation also focused on whether the pilot had breached company alcohol policy. According to the *NZ Herald*, Air New Zealand’s grounds for appeal included whether the Employment Court had applied sections of the Employment Relations Act correctly, and whether it took into account the airline’s aviation statutory and regulatory responsibilities.

The great words of the Bard attracted the attention of the *Northern Advocate*. An Exclusive Brethren school had to pay nearly \$28,000 compensation to a teacher it dismissed for handing her students a contemporary interpretation of text from Shakespeare’s *King Lear* without approval from the school committee. Kerikeri’s Westmount School dismissed English teacher Suzette Martin in July 2009, two years after she was employed, for “corruptly and morally defiling her students” in Year 13 through use of the text. Ms Martin had used a modern version of *King Lear* she had found on the internet to fulfil NCEA requirements. She went to the Employment Relations Authority, claiming unfair dismissal, but lost and subsequently argued her case in the Employment Court, which ruled in her favour. Westmount School is run by the Northland Education Trust and although all students at the school are members of the Exclusive Brethren, none of the teachers are.

MAY 2012

Unsuccessful candidates in redundancy or disciplinary matters may now be able to get sensitive information, including details about other applicants. Lawyers said about a recent Employment Court decision involving Massey University that it could change the way employers dismissed staff because information which had been previously considered “off limits” may now need to be disclosed. The case arose after Massey staff, forced to compete for fewer jobs in an organisational restructuring, sought information about the selection process to help their case. Lawyer Scott Wilson said in the *Dominion Post* that the ruling could include board minutes, internal memos and emails, guidance and advice from human resource managers, interview notes and details about other candidates. It could make bosses more careful about what they put on paper and job applicants could become “a lot more circumspect about what they say”. Interestingly, the Privacy Commissioner declined to

comment, but the Council of Trade Unions did not believe the ruling would lead to widespread breaches of privacy.

According to an article in the *Dominion Post*, Australians may have higher salaries than New Zealanders, but that does not necessarily correlate to more satisfaction at work. Workplace assessor SHL, active in more than 50 countries, did New Zealand and Australian research on factors that impact on employees' efforts at work and what attributes they wanted in a boss - and the results were similar. The most important factor for both Kiwis and Australians impacting on the amount of effort they put in at work was lack of recognition (59 per cent and 55 per cent respectively). When it came to pay, 39 per cent of Australians cited it as an issue compared to 34 per cent of Kiwis. Other significant concerns included boredom for 42 per cent of Kiwis surveyed and 43 per cent of Australians, lack of motivation for 38 per cent of Kiwis and 44 per cent of Australians, and criticism from bosses - 35 per cent of Kiwis and 31 per cent of Australians.

Criminal lawyers say they are considering strike action in protest against Government legal aid reforms. Strike action would mean lawyers would not turn up in court for cases. Wellington barrister Noel Sainsbury, who organised a meeting of lawyers yesterday, said there was a high turnout. He said about 50 lawyers were interested, including some who were unable to get to the meeting. Wellington's independent criminal bar had set up a steering committee that was concerned about the destruction of private legal representation and its replacement by a nationalised public service model, he said. The Public Defence Service opened its office in Wellington in February. Initially, the PDS was to take up to 33 per cent of criminal legal aid cases. In April, Justice Minister Simon Power announced that PDS would take up to 50 per cent. The key concerns were that the Government was removing any independence of advice and that having a state-run legal service prohibited criticism of the Government. There were worries about people being pressured to plead guilty and having their right to choose a lawyer taken away.

In *McDonald v Porse In-Home Childcare (NZ) Ltd*, Justine McDonald challenged her dismissal for serious misconduct, which arose from Porse receiving complaints about her behaviour while at a camping ground on annual leave. It transpired that, while on a camping holiday with friends, Ms McDonald had been involved in several altercations with other campers, primarily about noise and significantly, about noise made by children and the actions of children. She was identified as a Porse employee by the company-branded vehicle she was driving. The campers complained to the company that her actions were inappropriate, including a "propensity for swearing and being loud and aggressive", as well as reacting to incidents by yelling at children and frightening them. Porse concluded that there was a sufficient relationship between her conduct while on holiday and the nature of the business, for the matter potentially to damage the company. On that basis, the behaviour was considered serious misconduct and she was dismissed. That decision was challenged and in an interim decision, the Employment Relations Authority declined her application for temporary reinstatement.

The Herald on Sunday told us about a truck driver who received a \$40,000 payout in a workplace bullying dispute where the victim said that she thought she was going crazy when no one would help her: "It was a nightmare beyond anything I've ever had to face." In an echo of the film *North Country*, starring Charlize Theron and directed by Kiwi Niki Caro, the Employment Relations Authority found she had suffered psychological damage and was constructively dismissed.

The *Dominion Post* had an article concerning the Wellington International Airport using “illegally obtained” evidence to deny a man, caught in a workplace “sex act”, his job back. The Employment Relations Authority found that the dispute between the airport management and former employee was back to “square one” after ruling in the company's favour at an earlier hearing. The man was fired in December after twice being caught on a covert camera in a clothed sex act with a female colleague while at work. The company said he was fired for wasting company time, accessing a banned area, acting inappropriately during work hours, and maintained overall that he could no longer be trusted. He admitted “groping” the female employee with whom he was in a relationship. In March, he lost a bid to be temporarily reinstated pending an investigation. The employee still wanted his job of 20 years back and sought to have the investigation reopened, based on the fact that the original ER Authority decision relied on inadmissible evidence. The ER Authority rules that the video evidence was collected by a private investigator, not by another employee (as the airport had indicated) and was therefore “illegally obtained”. It ruled there had been a miscarriage of justice, ruled out the use of the inadmissible evidence and said the investigation would start at “square one” without it.

The Supreme Court granted IHC leave to appeal against a court ruling requiring staff to be paid the minimum wage for sleep-over shifts. The sleep-over claim was previously won in the Employment Relations Authority, the Employment Court and the Court of Appeal and it could have wide-ranging back-pay implications for many firms, with IHC estimated to be faced with around 176 million in back-pay claims (see March Chronicle).

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