

Things Are Not Always Fair in Love or Business

Most managers have no difficulty identifying and avoiding actions that are clearly dishonest. The problems usually lie in those daily grey areas where the norms of acceptable behavior are uncertain.

What constitutes fair behavior by companies? One survey asked a number of individuals to state whether they regarded a particular action as acceptable or unfair. Before we tell you how they responded, think how you would rate each of the following actions:

1a. A small photocopying shop has one employee who has worked in the shop for six months and earns \$9 per hour. Business continues to be satisfactory, but a factory in the area has closed and unemployment has increased. Other small shops in the area have now hired reliable workers at \$7 an hour to perform jobs similar to those done by the photocopying shop employee. The owner of the photocopying shop reduces the employee's wage to \$7 per hour.

1b. Now suppose that the shop does not reduce the employee's wage but he or she leaves. The owner decides to pay a replacement \$7 an hour.

2. A house painter employs two assistants and pays them \$9 per hour. The painter decides to quit house painting and go into the business of providing landscape services, where the going wage is lower. He reduces the workers' wages to \$7 per hour for the landscaping work.

3a. A small company employs several workers and has been paying them average wages. There is severe unemployment in the area, and the company could easily replace its current employees with good workers at a lower wage. The company has been making money. The owners reduce the current workers' wages by 5%.

3b. Now suppose instead that the company has been losing money and the owners reduce wages by 5%.

4. A grocery store has several months' supply of peanut butter in stock on shelves in the storeroom. The owner hears that the wholesale price of peanut butter has increased and immediately raises the price on the current stock of peanut butter.

5. A hardware store has been selling snow shovels for \$15. The morning after a large snowstorm, the store raises the price to \$20.

6. A store has been sold out of the popular Beanie Baby dolls for a month. A week before Christmas a single doll is discovered in a storeroom. The managers know that many customers would like to buy the doll. They announce over the store's public address system that the doll will be sold by auction to the customer who offers to pay the most.

Now compare your responses:

Action	Percent Rating the Action As:	
	Acceptable	Unfair
1a	17	83
1b	73	27
2	63	37
3a	23	77
3b	68	32
4	21	79
5	18	82
6	26	74

Source: Adapted from D. Kahneman, J. L. Knetsch, and R. Thaler, "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," *American Economic Review* 76 (September 1986), pp. 728–741.