

## Turnover in the hospitality industry: can reciprocity solve the problem?

Guglielmo Faldetta\*

Vincenzo Fasone\*\*

Carmelo Provenzano\*\*\*

Kore University of Enna, Faculty of Economics and Law (Italy)

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**Abstract:** Turnover is one of the major problems for the hospitality industry, with many negative impacts on the organizations. Human resources management practices, in particular organizational commitment and job satisfaction, are often indicated as possible instruments to make turnover rates lower. Reciprocity could be a powerful instrument of governance of the employment relationship. When employees perceive their employers' sincere commitment to them exceeding their expectations, the employees will be more likely to demonstrate stronger commitment to their organizations. The main aim of this theoretical article is to show how reciprocity can strengthen the employment relationship, so increasing job satisfaction and commitment, and so contributing to decrease turnover rates.

**Keywords:** Turnover; hospitality industry; reciprocity; employment relationship; workplace

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### Volumen de negocios en la industria de la hospitalidad: la reciprocidad puede resolver el problema?

**Resumen:** Las pérdidas de empleados es uno de los principales problemas para la industria del turismo, con muchos impactos negativos en las empresas. Las prácticas de gestión de recursos humanos, en particular, el compromiso organizacional y la satisfacción en el trabajo, a menudo, se indican como posibles instrumentos para que las tasas de rotación no sean más bajas. La reciprocidad puede ser un poderoso instrumento de gestión de la relación de trabajo. Cuando los empleados perciben el compromiso como elemento clave, que puede superar sus expectativas, los empleados estarán más dispuestos a demostrar un mayor compromiso para con su organización. El objetivo principal de este artículo teórico es mostrar cómo la reciprocidad puede fortalecer la relación de trabajo, lo que aumenta la satisfacción laboral y el compromiso, y así contribuir a disminuir las tasas de rotación.

**Palabras-clave:** Pérdidas, industria turística, reciprocidad, relación laboral; lugar de trabajo

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\* Assistant Professor of Business Organization; Kore University of Enna, Faculty of Economics and Law.  
E-mail: [guglielmo.faldetta@unikore.it](mailto:guglielmo.faldetta@unikore.it)

\*\* Assistant Professor of Business Management; Kore University of Enna, Faculty of Economics and Law.  
E-mail: [vincenzo.fasone@unikore.it](mailto:vincenzo.fasone@unikore.it)

\*\*\* Assistant Professor of Applied Economics; Kore University of Enna, Faculty of Economics and Law.  
E-mail: [carmelo.provenzano@unikore.it](mailto:carmelo.provenzano@unikore.it)

## 1. Introduction

Turnover is one of the major problems for the hospitality industry. From previous researches we know that it has many negative consequences on organizations, most of all in terms of direct and indirect costs. There are a growing number of studies that try to find solutions to this problem, taking into account human resources management practices, and particularly organizational commitment and job satisfaction.

We believe that this kind of solutions could be powered by considering reciprocity as a governance instrument of the employment relationship. If employees perceive organizational support, this can create an obligation to reciprocate the attention and caring received from the organization through greater effort, involvement and identification, so increasing employees' intention to stay in the organization.

So the main aim of this theoretical article is to show how reciprocity can strengthen the employment relationship, so increasing job satisfaction and commitment, and so contributing to decrease turnover rates.

In the next section we will introduce the relevance of the employee turnover in the hospitality industry, showing its negative consequences and its main causes. In the third section we will analyse the organizational answers to turnover, highlighting the importance of human resources management practices; we will show the relevance of organizational commitment and job satisfaction, and we will introduce to importance of reciprocity talking about the perceived organizational support. In the fourth section we will build a framework where employment relationship is about much more than an economic exchange, but it is also a potential social, psychological and institutional device. Precisely, we will explain how reciprocity provides defence against opportunistic behaviour by either party, and offers a vital element of predictability in the demands placed on diverse work roles thus establishing a basis on which social relations may develop. We will conclude the article with some experimental research implications. Reciprocity depends on institutional environment in which employment relationship is embedded. Then, in different static and dynamic experimental games, it is important to investigate the interaction process between employers and employees by changing the institutional conditions under which behaviour take place.

## 2. Turnover in hospitality industry

It is very well known that the hospitality industry comprises both a production and a service aspect; this means that the creation and the rendering of services from the hotel to the customer are primarily achieved through the employees (Lewis, 1989; Schneider and Bowen, 1993). For this reason, the success of this industry is primarily dependent on the quality of the employees and on how effectively they are managed. So it seems very important that the hospitality industry develops efficient human resource management practices and policies that enable them to recruit, select and retain competent employees who contribute to the achievement of their objectives (Cheng and Brown, 1998; Cho et al., 2006; Christensen Hughes and Rog, 2008; Guerrier and Deery, 1998; Kusluvan et al., 2010; Worsfold, 1999).

From this point of view, a major problem of the hotel industry is the high employees turnover levels (Bonn and Forbringer, 1992; Cheng and Brown, 1998; Dipietro and Condy, 2007; Hogan, 1992; Kennedy and Berger, 1994). A study of the level of turnover in London hotels showed annual rates between 58% and 112% (Denvir and McMahon, 1992), while other studies showed an average level up to 200 or 300 per cent per annum (Cheng and Brown, 1998), although substantial variations exist between different establishments. (Krakover, 2000)

According to Denvir and McMahon (1992), labour turnover is "the movement of people into and out of employment within an organization"; it can be voluntary or involuntary, and also controllable and unavoidable.

Turnover is a problem for the hospitality industry because of its negative consequences on organizations, most of all on frontline employees. We can classify them in two main categories: direct impacts and indirect impacts. Direct impacts are related to an increase of recruitment and training costs of new employees (Davidson et al., 2010; Mercer, 1988; Woods and Macaulay, 1989). This can be a major problem for hotels that need trained employees, because premature turnover may waste the investments on workforce development (Beckert and Walsh, 1991). Indirect impacts of turnover are related to a decrease of employees' productivity (Tracey and Hinkin, 2006) because of poor service quality, unfamiliarity of the workplace (Denvir and McMahon, 1992), low commitment and job dissatisfaction (Smith et al., 1996; Woods and Macaulay, 1989). According to Smith et al. (1996), employees' satisfaction drops after 6

months standing, and the greatest level of job turnover occurs during this period. The loss of job satisfaction can cause in turn damage on hotel's reputation, because it can lead to customers' dissatisfaction (Lewis, 1989).

One of the main reasons for high turnover rates is the seasonal nature of the hospitality industry (Denvir and McMahon, 1992). It seems that hotel managers are accustomed to hiring and firing employees according to the rhythm of regular seasonal fluctuations, while they are less prepared, unwilling, or unable to fully synchronize labour to demand (Krakover, 2000).

Among the other factors that can cause turnover, contributing to an increase in turnover rates, there are: job dissatisfaction (Bonn and Forbringer, 1992; Smith et al., 1996); poor training and development opportunities (Hogan, 1992; Poulston, 2008); competitive organizational culture (Woods and Macaulay, 1989); wrong management styles (Lee-Ross, 1993; Woods and Macaulay, 1989); stress and burnout (Vallen, 1993); *ad hoc* recruitment and selection procedures (Bonn and Forbringer, 1992; Woods and Macaulay, 1989); discrimination at the workplace (Antolik, 1993); poor organizational commitment (Denvir and McMahon, 1992); a sort of "turnover culture" in the hospitality industry (Deery and Shaw, 1997, 1999; Iverson and Deery, 1997)

### 3. Organizational answers to turnover

Having defined what is employees' turnover in the hospitality industry, and why it is a major problem in terms of negative impacts, we analyze researches and studies in the organizational field to find some answers to this problem.

Most of the researchers agree that human resources management practices can have a positive impact on turnover rates (Cheng and Brown, 1998; Cho et al., 2006; Hemdi, 2009; Pizam and Thornburg, 2000; Tracey and Hinkin, 2008). Among human resources management practices, a great emphasis is placed on recruitment, selection (Bonn and Forbringer, 1992; Tracey and Hinkin, 2008), training (Choi and Dickson, 2009), socialization, development (Cheng and Brown, 1998), labour-management participation programs (Cho et al., 2006), while performance and remuneration systems seem to have an indirect and less relevant impact (Cheng and Brown, 1998).

Many studies point out that human resources management practices have an impact

particularly on job satisfaction and commitment (Bai et al., 2006; Christensen Hughes and Rog, 2008; Lam et al., 2002), which in turn have a positive effect on turnover rates (Kazlauskaitė et al., 2006). Specifically, employees' perceptions of HRM practices have significant, positive, and direct effects on organizational commitment (Hemdi, 2009; Maxwell and Steele, 2003). According to Liao et al. (2009), if a manager wants to reduce the turnover rate in a hotel industry, it is important that employees feel satisfied with their jobs and thereby improve commitment to the organization. Moreover, when human resources management practices are designed so to not constrain employees by restrictive policies and procedures, job satisfaction increases (Smith et al., 1996). Job satisfaction and commitment are also positively correlated to employees' intention to stay, that is, in other words, to lower turnover rates (Chiang et al., 2005; Kim and Jogaratnam, 2010). Moreover, job satisfaction is positively associated with organizational commitment, but negatively associated with employees' intention of leaving (Kim and Jogaratnam, 2010).

Now the question is: how organizations in the hospitality industry can foster job satisfaction and commitment, and so reduce employees' turnover rates and increase employees' intention to stay? Many studies agree that a good way is to increase perceived organizational support (Bilgin and Demirel, 2012; Hemdi, 2009; Walters and Raybould, 2007). Perceived organizational support seems to be positively related particularly to affective commitment, that is one of the three components of organizational commitment identified by Meyer and Allen (1991). Also leader-member relations have a significant positive effect on job satisfaction (Liao et al., 2009). Moreover, leader-member exchange (Borchgrevink and Boster, 1997) seems to have a positive effect also on turnover intention, even if mediated by perceived organisational justice (Lee et al., 2010).

Perceived organizational support and leader-member exchange can be seen in the light of social exchange theory (Blau, 1964). Through perceived organizational support, favourable human resources management practices can be seen by hotel employees as signals of the high level of care that the organization has for them. This can lead employees to feel obligated to make contributions to the organization (Aselage and Eisenberger, 2003). By giving organizational rewarding, ameliorating the work conditions, increasing work autonomy and safety and giving value to the employees, organizations

can increase job satisfaction and obtain affective commitment in return (Bilgin and Demirer, 2012).

According to the reciprocity norm (Gouldner, 1960), employees are likely to reciprocate what the organization does for them through an emotional attachment to the organization and more effort to achieve organizational goals (Bilgin and Demirer, 2012; Hemdi, 2009). If employees perceive organizational support, this can create an obligation to reciprocate the attention and caring received from the organization through greater effort, involvement, identification, all of which reflect their level of affective commitment (Hemdi, 2009). When employees perceive their employers' sincere commitment to them exceeding their expectations, the employees will be more likely to demonstrate stronger commitment to their organizations and when employees are committed to their organizations, they will engage more strongly in behaviours of helping co-workers and showing greater loyalty towards their employers (Johanson and Cho, 2007).

This kind of reciprocity is more likely to occur when human resources management practices reflect voluntary and sincere treatment by the organization, on the one hand (Faldetta, 2011). For instance, Laker and Whitaker Shimko (1990) propose the realistic job preview, that is when an organization makes sure that a potential employee receives a total picture of what is involved once hired by the organization.

On the other hand, they should be perceived as fair. Many studies indicate that these practices can have a positive impact on employees' organizational commitment and job satisfaction by treating employees with fairness (Fulford, 2005) and justice. In particular, employees' perception of organizational justice is an important antecedent of employees' pay satisfaction, and has positive impacts on their affective commitment, work effort, performance (Wu and Wang, 2008), organizational citizenship behaviour and turnover intentions (Hemdi and Nasuridin, 2007).

Organizational justice can be of three kinds: distributive justice, or the perceived fairness of outcomes (Adams, 1963), that is the proportionality between the outcomes one receives and the inputs one contributes; procedural justice, that is the perceived fairness of the procedures used to determine an outcome (Thibaut and Walker, 1975), which refers to the means by which outcomes are allocated, but not specifically to the outcomes themselves; interactional justice, which refers to how

one person treats another (Bies and Moag, 1986), that can be in turn separated into two dimensions named informational justice, that refers to explanations and social accounts, and interpersonal justice, that refers to respectful consideration and sensitivity (Colquitt, 2001).

Some studies give more importance to distributive justice (Nadiri and Tanova, 2010), some others to procedural justice (Hemdi and Nasuridin, 2007), less to interactional justice. Generally speaking, employees' perceptions about the fairness of the treatment they receive from their organizations can influence their decisions about engaging in morally proscribed behaviours, or in highly regarded behaviours, like the citizenship behaviours, that substantially exceed moral minimums (Zoghbi-Manrique-de-Lara, 2010).

What seems important is that these behaviours are explained via the mechanism that "rule deactivation" provides as a mediator in the relationship between organizational justice and behaviour. It seems that formal rules and norms can be in some cases an obstacle for such behaviours in organizational contexts. What is common among these studies is the relevance given to the psychological, perceptual and affective variables as possible explanations of turnover intentions (Carbery et al., 2003).

So a possible explanation of turnover intentions is a perceived psychological contract violation in the employee-employer relationship, that reveals a breakdown of the implicit reciprocity norm (Stalcup and Pearson, 2001), considering also the mediating role of affective commitment (Blomme et al., 2010).

In order to decrease turnover rates in the hospitality industry, the employment relationship should be inspired by reciprocal trust and loyalty (Ineson and Berechet, 2011). Some authors (Carbone 1997) think that there is no room for loyalty in a context dominated by self-interest and individualism such as business organizations. On the one hand, we can agree that there is a sort of hypocrisy, which often leads managers to encourage loyalty in order to make employees devoted to the organization, to obtain from them unilateral acts of sacrifice. On the other hand, we do not share the pessimistic outcome of such criticism, because it seems that the only man we know is the one motivated by self-interest and economic calculation. Loyalty can be used in an instrumental and utilitarian sense, to explain that employees are encouraged to act repetitively for an organizational interest, to obtain something that is attractive for them and that increases their utility; otherwise it

can also be used, emphasizing the element of gratuitousness and spontaneity, to explain the willingness to act for someone with whom you are involved in a deep and strong relationship (Melé, 2001).

#### **4. Reciprocity as governance of the turnover in the employment relationship**

The employment relationship is about much more than an exchange of labour for money, but it is also an institutional, social and psychological device. In particular, Simon (1951) in his monumental work on “Theory of Employment Relationship” identifies the employment contract as an economic institutional device that an entrepreneur can use in order to react to uncertainty present in the market. It creates an authority relationship between an employer and employees, in the sense that it gives to the employer the possibility of choosing a set of specific actions which the worker must perform, i.e. his behaviour. The employment contract differs from the usual sale contract because it does not specify the terms of action of the two parties. At the time the contract is made, workers do not know the exact details of the performance required by the employer. On the other hand, the employer pays (a wage) for the privilege of postponing the terms of the contract. Therefore, Simon argues that in a context of uncertainty, the most important feature of the employment contract is that it is “advantageous to postpone decision...in order to gain from information obtained subsequently” (Simon, 1951: 304). In other words, given the difficulties of precisely defining the terms of contract in the context of uncertainty, the possibility of the employer progressively specifying the appropriate behaviour to ask the worker as more information is made available, is a formidable advantage of the employment relationship. In his work of 1991, by developing such insights, Simon writes that “the essential point is that the uncertainty for the employer is decreased by delaying the commitment to specific actions from the time employment begins until the time when action is called for (Simon, 1991: 31)”.

Furthermore, turnover increases the flexibility of employment relationship and it gives the manager the authority to define decisions in the future. This is a formidable advantage, because only time will reveal the decisions which may be made in the future concerning the best plan of action for the manager. Increasingly, this

flexibility of the firm can respond to quickly moving markets and technical change.

The problem is to define the limits of employer’s authority. Without such limits, for worker distrusted the intentions of potential employers, turnover would have seemed an appropriate technique for exploitation: and so it only became acceptable as various protections were incorporated in it. Nevertheless, these limits could not be set by exhaustive agreement with complex contingency clauses. Agreements more complex are more expensive (in terms of cost of writing such contracts) and create endless scope for job-level bargaining.

In order to solve this difficult question and in particular to understand how to enable open-ended cooperation between self-interest and rationally bounded parties – workers and employers – it is necessary to extend the neoclassical model of a contract.

The employment contract is a potential social and psychological device in the sense that it is not only an economic exchange between job and wage, but it is also a social exchange relationship where the parties’ (psychological) perceptions of their rights and obligations assume a crucial role.

The distinction between social exchange and economic exchange has been analysed by Blau (1964, 1994). According to Blau, economic exchange is impersonal in nature and it focuses on the quantifiable obligations and extrinsic benefits that the parties expect to derive from each discreet contractual transaction. In the social exchange relationship, instead, one person does a favour for another person with only a general, but vague and unenforceable, expectation that the other person will eventually reciprocate in some way. Given that the employer cannot specify in advance all his/her demands on the employees and that it is impossible to carry out even the most basic of tasks, without a broad social exchange relationship employees feel more insecure and they do not go beyond their contract (Leana and Van Buren, 1999; Rodgers, 2000). In other terms, an employment contract identified as economic exchange gives rise to unrestricted rights and obligations that do not extend beyond the terms explicitly fixed (Rodgers, 2000).

According to the psychological literature on contracts, that examines the nature of the employment relationship from the employees’ perspective, there is a similar distinction between the “transactional” and “relational” aspects of psychological contracts (Rousseau, 1995). The transactional aspect of the



psychological contracts is reflected in workers' logic of quid-pro-quo – they are entitled to just rewards based on their performance, and in return they follow the formal norms and legal requirements (Rodgers, 2000). The relational aspects of the psychological contract is reflected in workers' feelings that they are entitled to employment security and opportunities for training and improvement, and that they are constrained to offer loyalty and flexible effort (Rodgers, 2000). Thus, if there is no expectation of a long-lasting relationship the relationship is essentially transactional in character; if the parties expect a long term relationship and they both recognise that their respective obligations go beyond the formal contract, the relationship has more of a relational character.

Establishing reciprocity in work relationship is not always easy. The problem of reciprocity is that it may take a lot of time to grow. It may not be sufficient to effectively co-ordinate the expectations between employment relationship parties, especially in large and complex organizations. In order to overcome these problems, some authors have emphasized the role of impersonal transaction rules in the employment relationship (Marsden, 1999). These employment rules can be identified as governance devices, in the sense that they reduce transactions and production costs, provide flexibility due to lesser need of detailed contracts and restrain the opportunism of the parties. The employment contract may be identified as an institutional authority relationship where impersonal rules provide a framework for spontaneous co-operation between manager and workers. These rules give potential solutions to the problem of instability of employment relation because they limit managerial authority and employees' obligations and provide protection against opportunistic behaviour by either party.

As a result, a detailed explanation of economic phenomena and of institutional effects requires that particular attention has to be paid to the relationship between formal and informal constraints. While formal rules are produced and enforced by organisations, such as the state and firm, to overcome problems of collective action through third-party sanctions, informal norms, instead are produced out of networks and are reinforced by means of ongoing social relationships.

Relational mechanisms such as reciprocity produces outcomes that have important implications for the way economic behaviour change, as well as to provide a framework for

collective action and furnish an alternative to mechanism in enforcing the rules of the game.

Reciprocity may co-ordinate social expectations and interactions and may enforce the work of institutions and represent a complementary means of maintaining power of authority. The institutional structure is not itself entirely exogenous but emerges as a part of a process of social interaction. Social mechanisms such as control as well as trust may co-ordinate social expectations and interactions and may enforce the work of institutions and represent a complementary means of maintaining power of authority. The agents in this framework are portrayed as having plans or strategies, but when they enter in a network, their preferences can change because institutions and relational mechanisms influence them. For example, trust mechanisms can affect access to information, improve the efficiency of the organisations and facilitate coordinating action (Burt, 1992). In particular, Coleman asserts: "an important form of social capital is the potential for information the inheres in social relations... a person who is interested in being informed about important developments can save the time required to read a newspaper if he can get the information he wants from a friend who pays attention to such matters" (Coleman 1990: 310; Coleman, 1988: S104). Second, and this is the advantage most emphasized by Coleman, trust facilitates sanctions and as a result the enforceability of institutions (Coleman, 1990).

However, reciprocity may increase the risk of exploitation by each party and so makes the employment relationship more unstable. When the employment relationship is not long-term, reciprocity may not be sufficient to effectively co-ordinate expectations and interactions between manager and workers (Noteboom, 1996).

Given the intrinsic features of such relational mechanisms, it seems obvious that employer and employees who consider this device as a possible basis for their interaction, usually seek reasons as to why the risk of trust will at least not exceed certain limits. Relations based on reciprocity can never be built on complete information since it would make themselves superfluous in this core, nevertheless they require environmental and institutional factors on which it relies on (Zucker, 1986; Reed, 2001).

When informal rules define relationships by establishing clearly tasks of employee and limits of employer's power, individuals are assumed to trust each other in the face of such structural arrangements (Bachmann, 1998, 2001, 2002).

This means that the object of relationships based on reciprocity in this institutional contest is the person but its complementary source is the institutional environment in which they are embedded. Reciprocity does not emerge in a vacuum but is based on specific institutional arrangements that represent a world of shared meaning and normative rules of behaviour within organisations.

According to Marsden (1999), such rules may be a more simple solution and enable management and workers to identify the kinds of tasks over which particular jobs extend.

Employment rules have to fulfil two sufficient and necessary conditions to build a stable framework and to enable an effective employment relationship: they must efficiently align worker skills with job demand; and they must be sufficiently transparent to be enforceable.

They must align job demands and worker competencies in a productively efficient criteria because they must permit both parties to be better off with an employment contract than under alternative forms so that both have positive reason for choosing it (Marsden, 1999: 31).

On the basis of the different combinations between different kinds of employment rules and reciprocity mechanism we can identify several distinct patterns of controlling employment relationships.

In summary, the institutional system deals with the different areas of opportunism by establishing and limiting employees' obligations. It is forceful and makes the open-ended employment relationship a viable and attractive form of contract.

However, it may be risky in the sense that if trust breaks down, this implies devastating effects on interpersonal relationship and quickly erodes the organizational climate. Consequently, in order to maintain power of authority and protect from opportunistic behaviour of each parties, it needs to rely on relational mechanisms such as reciprocity. Positive reciprocity enforces the work of less detailed institutions by providing social effective sanction and represent a complementary means of developing cooperation in the firm. Reciprocity between employer and employee and among employees affects behaviour and attitude of the parties and represents a key element that underlines the relational governance. The potential role of such mechanisms is to entail mutual dependence between the parties, and enforce their mutual trust. Trust, in this case, resides on implicit

relational dependence between individual actions. As written above, pro-social action of one party generates friendly behaviour of other party and *vice versa*.

There is a growing number of experimental papers measuring social capital and we can identify four main experiments that are fairly relevant to our research: the *trust game* which measures trust and trustworthiness, the *ultimatum game* which measures the strength of norms of fairness and reciprocity, the *dictator game* which measures altruism and generosity and the *voluntary contribution game* which measure the propensity to cooperate. More specifically in the existing literature an important analysis of the previous experiments is the version of the *gift exchange game* which was introduced in the writings of Fehr et al. (1993) for the purpose of testing the gift-exchange hypothesis. In essence, such a hypothesis can be explained by the following example: if employees choose their effort in reaction to the "generosity" of the firm's wage offer, firms may have an incentive to pay non-market clearing "efficiency wages" and thereby making a "gift" to the employees.

In other words, these authors attempt to test the importance of the theory of wage determination, called the "gift exchange version" of efficiency wage theory (Akerlof, 1982; Akerlof and Yellen, 1990). This theory argues that labour relations can often be characterized in terms of a "gift exchange" between workers and firms: firms voluntarily pay their workers above the next best alternative and workers respond with above-minimum work effort. Such behaviour can result in sticky wages and involuntary unemployment.

This work suggests going beyond the results achieved by previous experiments on reciprocity and to attempt to empirically investigate the interaction of relational mechanism and institutional arrangements (Provenzano, 2007). Specifically it is necessary to extend the previous experimental results, firstly, by investigating the impact of different informal employment rules on the reciprocity mechanism and, secondarily, by analysing the dynamic relationship between institutional arrangements, employer's informal control based on reciprocity and (selfish/reciprocal) employee's effort.

In other words, relational mechanisms such as reciprocity may be efficiently combined with the transaction rules governing the employment relationships, in order to obtain a stable cooperation between employer and employees.

To simplify the discussion and on the basis of previous experiments, we can simplify such insights by assuming that a wage offer may take place in a flexible institutional environment characterized by function-centred rules where workers have a considerable degree of discretion over the tasks assigned to them; and in a more rigid environment where the wage offer is associated with a detailed specification of duties. Basically in the second condition, workers have less discretion.

We assume that positive reciprocity is steeper in experiments with more discretion and institutional flexibility. In other words, rigid rules may undermine the positive reciprocity, and the effort levels of workers acting on the basis of such rules should be closer to the ones predicted by standard economic theory. In such a context, informal control cannot produce all its positive effects. On the other hand, in a flexible environment, employees choose higher levels of effort because, with more discretion, they are more positively sensitive to employer's action. Furthermore, spontaneous cooperation in a flexible environment may arise based on the mechanisms of repeated interactions. In such conditions, the members of an organization may perceive that, in the game they are playing, a situation of cooperation is mutually advantageous. The most important problem is to understand if repeated interaction may support reciprocity. The experiments by Gächter and Falk (2002) address exactly this question in the context of the gift exchange game and analyse the comparison of two treatments: one-shot treatment and repeated game treatment. On the one side, they show the importance of incentive contracts and long-term contracts (RG treatment), i.e., repeated interactions; on the other side, they demonstrate the pure reciprocity effect (in the OS treatment). Genuine reciprocity matters, but it depends on the details of the interactions.

## 5. Conclusion

The main idea of this article is that the governance of employment relationships must take into account different instruments and several motivators in order to solve the problem of opportunism arisen in an uncertain context characterized by turnover. By raising interest in anthropological and relational pre-supposition of the economic action, we argue, not only that informal control based on reciprocity is an important employment govern-

ance device, but that it depends on the details of the interaction. Specifically we suggest to investigate the interplay between reciprocity and reputation in order to achieve spontaneous coordination in the employment relationships. Reputation helps reciprocity to overcome opportunism within the employment relationship and provide a relatively stable framework within which workers and firms may achieve their aims.

In the employment relationship (usually characterized by a long-term contract), managers begin by outlining their obligations towards employees in an employment contract. However, this does not stop them from expecting employees to go beyond this contract. Likewise, employees might expect benefits not specified in their contracts based on their status. Thus both parties are likely to claim entitlements that are broader than the obligations that they are willing to accept. Moreover, there is no automatic process whereby changes in the rights and obligations of one party would necessarily lead to corresponding adjustments in the rights and obligations of the opposite party (Rodgers, 2000). The authors have identified the employment contract as a relational device generally believed that employees respond in kind and the both parties are likely to act to protect the relationship per se than weigh the outcomes from each episodic exchange. Nevertheless, since the obligations that follow from this type of contract are too diffuse or undefined to be strictly enforceable, this social exchange is (in itself) partially stable. Indeed, it depends on feelings of personal gratitude and reciprocity or on impersonal social rule. Without these elements the parties feel more insecure and believe that the implicit contract does not exist or has been broken. A high level of reciprocity between employer and employee is essential in a contract identified as psycho-social exchange relationship. Reciprocity, undeniably, in the relational contract is the glue between explicit and implicit commitment (Gambetta, 1988; Lorenz, 1988, 1992; Luhmann, 1979, 1988; Wittek, 2002).

On the basis of the propositions developed above, the employment relationships may be analysed as a relational and institutional relationships where the role of informal institutions (behaviour code, routines, habits, etc.) and relational mechanisms (trust or reciprocity) assume a crucial role in order to understand the governance of unemployment relationship. The presence of informal employment rules serves both to control opportunism and to



provide a foundation for building the human skills and organizational capabilities of the firm. They emerge as de-personalized, simple and legitimised institutional orders. They are included in the structural arrangements of the organizations, restrict individual's behaviour by blinding their decisions, enforce the employment relationship and change his nature.

According to Marsden (1999), these rules are sufficiently robust to offer the necessary guarantees to firms and workers and to manage common kinds of opportunism arising from incompleteness of the employment contract. They are powerful institutions in the sense that they can affect the behaviour of individuals in the firms, absorb risk, increase chances of cooperation in the employment relationship. Furthermore, as we wrote above, they require social mechanisms for their operation, in the absence of which, they do not likely provide an effective way of co-ordinating employment relationship (Marsden 1999).

In conclusion, reciprocity may overcome opportunism arisen by turn over within the employment relationship and provide a relatively stable framework within which workers and firms may achieve their aims. The analysis of efficiency of this governance requires the understanding of how reciprocity is combined with such different rules.

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