

The Importance of Just Process: Mutual Dissatisfaction Between Managers and Workers in Foreign-Owned Companies

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October 2016



Stanford

Center for International
Development

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Last Updated: Oct 4, 2016

Acknowledgements

We would like to acknowledge Alelign Fekadeneh and Girum Abebe from the Ethiopian Development Research Institute (EDRI) for their generous help in collecting data for this study. We would also like to thank all of the managers and employees in the study for their participation. Funding for the research was provided by the Stanford Center for International Development.

Abstract

The introduction of foreign companies may help developing countries achieve faster economic growth, but it raises a number of challenges. In particular, studies have found that labor relations between domestic workers and their international managers are often characterized by mutual dissatisfaction. This study explores when and why managers and workers experience mutual dissatisfaction within the context of Ethiopia. We conduct case studies of 16 domestic and foreign-managed factories in and around Addis Ababa. The evidence suggests that mutual dissatisfaction stems in part from a mismatch in expectations regarding just process, i.e., the procedures by which working conditions in the factory are set and modified. Mismatches occurred along three dimensions. Specifically, managers and employees disagreed over whether labor laws represent a basis for employment negotiation, or unreasonable bureaucracy; whether workers should be active participants in the labor management practices; and whether changes in working conditions ought to be motivated by viewing employees as human resource investments or extended family members.

'All I am asking for is a little respect'

Aretha Franklin

Introduction

One way that developing countries grow economically is by encouraging the entry of foreign companies and capital (Caves 1974). Local companies may lack sufficient capital to finance major infrastructure or mass production projects, and foreign investment can help to fill this gap (Borenzstein et al. 1998). Moreover, foreign companies may bring technological know-how that can increase the productivity of local labor (Bransetter 2006). Ideally, by collaborating with or observing foreign investors, local companies and entrepreneurs learn new skills and further increase economic development (Javorcik 2004).

The entry of foreign-owned companies can bring new challenges, however (e.g. Haddad and Harrison 1993; Aitken and Harrison 1999). In particular, one common problem faced by foreign-owned companies is mutual dissatisfaction between domestic workers and their international managers (e.g. Bodomo 2010; Moran et al. 2014; Arsene 2014). By mutual dissatisfaction, we mean a self-reinforcing situation whereby workers dislike their jobs and exert effort only when closely supervised, while managers continually impose costly and coercive methods to ensure productivity. Mutual dissatisfaction is often associated with absenteeism, employee theft, and high turnover rates (for a review, see Judge et al. 2001; Thoresen et al. 2003).

One context where mutual dissatisfaction is especially salient is in sub-Saharan Africa. For instance, Azam and Lesueur (1997) note that large foreign firms in Africa consider worker supervision one of their most serious concerns. Fafchamps and Söderbom (2006) provide evidence that workers in sub-Saharan Africa are less responsive to supervisor monitoring than

workers in Northern Africa (Morocco). Fafchamps and Minten (2001) report that 37% of agricultural traders in Madagascar refrain from hiring more employees for fear of employee theft. In Ethiopia, Blattman and Dercon (2012) find high worker exit rates in medium to large firms, even among young workers whose wages appear to be significantly better than market alternatives.

The overall goal of this study is to explore reasons for when and why managers and employees of foreign-owned companies are mutually dissatisfied in the context of one particular African country. To the extent that liking one's job is positively associated with welfare gains on the part of the worker (Faragher, Cass, and Cooper 2005), understanding mutual dissatisfaction may provide a basis for designing interventions that significantly improve welfare. Moreover, to the extent that workers are less motivated, require costly supervision, and are otherwise less productive when they are dissatisfied (Iaffaldano and Muchinsky 1985), understanding mutual dissatisfaction may suggest interventions to improve productivity. Given that annual global foreign investment reached 1.7 trillion dollars in 2015 (OECD 2016), these issues are of considerable interest.

To understand when and why managers and employees in foreign-owned companies experience mutual dissatisfaction, we conduct case studies of 16 domestic and foreign-managed factories in and around Addis Ababa, the capital of Ethiopia. These factories differ along multiple dimensions and are characterized by varying degrees of worker and manager satisfaction. These case studies enable us to explore when and why workers and managers fall into a state of mutual dissatisfaction.

To foreshadow our results, the evidence suggests that dissatisfaction stems in part from a mismatch in expectations regarding just process, i.e., the procedures by which working

conditions in the factory are set and modified. Specifically, in companies where we observe mutual dissatisfaction, mismatches appear to occur along three dimensions. First, managers and Ethiopian workers disagree as to whether labor laws are excessive red tape, or serve as a proper basis to govern the relationship between workers and employers. Second, they disagree as to whether workers ought to participate in decisions regarding working conditions. Third, they disagree as to whether changes in working conditions ought to be motivated and framed as purely profit-maximizing, or as benefitting workers as part of an extended family.

Explanations for Mutual Dissatisfaction

The simplest hypothesis for mutual dissatisfaction is that the material conditions of employment (such as earnings, workplace health and safety, and welfare coverage) in foreign factories are insufficient to ensure satisfaction among domestic workers (Agho, Mueller, Price 1993; Price and Mueller 1986). For brevity, we call this hypothesis the *material conditions hypothesis*. It is based on a simple assumption: factories where workers are satisfied are those where they are paid more, feel safer and more comfortable, and receive better benefits. For instance, studies have shown that workers are more satisfied in factories with fewer occupational hazards (Vagg and Spielberger 1998). Indeed, even the earliest studies on the topic (e.g. Herzberg 1964) argue that worker satisfaction is driven mainly by salary, job security, fringe benefits, hygiene and work conditions.

The material conditions hypothesis can be refined in various ways. For instance, even if current working conditions are less than ideal in an absolute sense, employees may be satisfied if they believe their current situation is better than available alternatives. Alternatively, just as workers are willing to work when given a wage above their reservation wage, worker satisfaction

can be considered a threshold problem: managers must provide some minimum package of material conditions above which workers will be satisfied. What unifies these narratives is the underlying assumption that worker satisfaction is monotonically higher when material conditions are better because workers respond rationally to material incentives (e.g. Gruenberg, 1980).

While material conditions do contribute to worker satisfaction, there remain two primary problems with the material conditions hypothesis. The first (empirical) problem is that foreign firms often offer better material conditions than their domestic counterparts. While there has been occasional evidence to the contrary (Marin and Bell 2006), foreign firms generally offer better bonuses, job training, welfare packages, and salaries (a premium of 30-70% compared to domestic firms). This has been observed across developing economies as diverse as Ghana, Venezuela, Mexico, Uruguay, and post-communist Hungary (Gorg et al. 2002; Brown, Earle, and Telegdy 2006; Aitken & Harrison 1999; Andrews et al. 2007). Thus, the material conditions hypothesis suggests that, on average, foreign firms ought to demonstrate *higher* satisfaction than domestic firms.

The second (theoretical) problem is that material conditions must be perceived as being unfavorable before they translate into worker dissatisfaction. Conversely, non-material conditions can be perceived as more meaningful and consequential for worker satisfaction. For instance, in the pro-social context of public health efforts to promote HIV prevention and sell condoms, Ashraf et. al. (2014) find that non-financial rewards are more effective at improving worker satisfaction and performance than financial rewards. In fact, in a meta-analysis, Judge et al. (2010) find that worker pay is only marginally related to satisfaction. We can thus hypothesize that material conditions interact with other factors before they affect worker satisfaction.

This observation has given rise to a series of explanations of mutual dissatisfaction that might be broadly categorized as cultural-mismatch accounts. The fact that managers and workers are from different national backgrounds suggests systematic differences in culture. For instance, Braudel (1985) suggests that individuals in what he calls the “subsistence economy” are strongly embedded in social norms of reciprocal gift exchange with households and extended families. These kinds of norms are at odds with those of large international firms, which tend to interact with workers more contractually. The clash of family and firm norms leads employees to resist management. Similarly, Fafchamps (2011) indicates that social roles and family structure dictate the assignment of individuals to specific tasks within the household in many subsistence economies. These behavioral norms can be a source of dissatisfaction when they clash with those of foreign-managed firms. Other explanations focus on historical differences that lead to variations in norms. For example, Acemoglu et al. (2001) argue that African workers have not had the benefit of experiencing well-established, well-functioning institutions because of violent colonization. In this explanation, workers have less experience with consistent rules and reliable managers. Thus, workers have a short-term mindset that frustrates managers. These ideas are further reflected in studies that stress the importance of cultural competence, i.e., the capacity of businesspersons to understand and adapt practices to respect how cultures differ across values such as universalism and particularism, individualism and communitarianism, or specificity and diffuseness (Johnson, Lenartowicz & Apud, 2006; Hampden-Turner and Trompenaars, 2000). The underlying assumption is that cultural competence translates into better relationships between managers and employees.

Culture can be defined in several ways. For the sake of this paper we define culture as shared common expectations, i.e., recursive and mutually shared expectations of what others will

do (Chwe 2013, Jackson and Xing 2014). This definition partly overlaps with the intuition that culture is a set of commonly shared beliefs, practices, or values within a group of individuals. However, our definition focuses on shared expectations because it allows for individuals to deviate from beliefs or practices while still being part of a culture. For instance, an individual does not have to be hard-working or believe that diligence is inherently important for there to be a culture of working hard. The culture exists as long as the individual expects others to work hard and expects others to expect the same. The cultural mismatch hypothesis thus formally refers to the clashing of two *systems* of expectations encountered by the same individual. This clash creates dissatisfaction and tension, in the same way that psychological theories of balance predict a rise in anxiety and tension when individuals simultaneously accept two conflicting ideas (e.g. Cartwright and Harary 1956).

Cultural Mismatches in Just Process

To be applied to any particular case, the cultural-mismatch hypothesis requires a clear explanation for the *kinds* of expectations that lead to dissatisfaction (and how). This is because mismatches in expectations do not always drive dissatisfaction in workers. Individuals can adjust their expectations once in the workplace. After all, workers are aware that they are entering foreign-run factories and can adjust their expectations once in their new working context. Even values can be considered fluid; not necessarily applied to every context a priori but rather drawn upon selectively to make sense of experiences after the fact (Swidler 1986). As such, we must identify why certain expectations are more difficult to adjust and how they lead to mutual dissatisfaction.

We argue that individuals have difficulty adjusting to mismatches over what they regard as just process (see also Folger and Konovsky 1989; Colquitt and Rodell 2011; Lind and Tyler 1988; Miller and Monge 1986). By “process,” we refer specifically to how expectations are managed and set. Stated more abstractly, process is a meta-expectation: an expectation about how expectations ought to be set. By “just,” we mean common expectations about fairness that imply moral correctness, such that the expectations are not merely conventions for coordination.

In practice, a mismatch in just process can be operationalized as clashing expectations about the fairness of a negotiation process. For instance, a mismatch in process can be observed when workers share a common expectation that they be consulted about any changes in working conditions, while managers expect to be able to make such decisions unilaterally. To the extent that these expectations also imply moral correctness and fairness, we can categorize this difference as a mismatch in just process.

We theorize that expectations about just process are difficult to change for two reasons. The first reason is the psychological salience of justice or fairness. It has long been observed in laboratory studies that human subjects are particularly sensitive to processes and outcomes that they regard as unfair (Charness and Rabin 2002). As Lind and Tyler (1988) illustrate, a defendant who is called to the courthouse to contest a traffic violation may still be angry when the case is dismissed--his or her case was not given due process even though the violation itself is solved. Fehr and Schmidt (1999) report evidence suggesting that individual preferences over payoffs are characterized by inequality aversion. In ultimatum games played in 15 different small-scale societies, Henrich et al. (2001) find that no human subjects behave perfectly rationally and appropriates the entire monetary endowment. Instead, the authors report that the behavior of the subjects appears based on expectations of fairness in their respective societies.

Using a controlled field experiment in India, Breza et al. (2015) show that offering a slightly higher wage to productive workers lowers the effort of less productive workers because they view such wage increases as unfair. Jayaraman, Ray, and Véricourt (2016) show that reducing wage disparities among tea plantation workers resulted in a (temporary) increase in labor productivity because workers felt that wages were distributed more fairly.

To be sure, this first reason is applicable to issues that pertain to the distribution of benefits (i.e. distributional justice). Why, then, do we specifically believe that mutual dissatisfaction can arise from clashes in expectations about just *process* (i.e. procedural justice)? We suspect that, while expectations about morally correct distributions can be adjusted over time, clashing expectations about just process represents a significantly larger and more immediate hurdle to effective coordination. This theoretical argument can be illustrated using a simplified formal model as follows.

Consider the simple case of two agents m and e , corresponding to a single manager and employee, respectively. Assume that agent m is seeking to maximize the productivity of the factory: the output Y of worker e minus the cost of supervision S . For simplicity, assume agent e can freely choose (at no cost to her) between two states: motivated and unmotivated. When agent e is motivated, the cost of supervision is zero. Otherwise, the cost of supervision is S (greater than 0 but smaller than output Y). Assume that agent e is seeking to maximize wages and benefits from her work and for the time being cannot leave the job. Finally, assume that wages and benefits are a monotonically increasing function of total productivity $f(Y)-f(S)$, where $f(Y)$ and $f(S)$ are always less than Y and S , respectively. From these simple assumptions, the best outcome for the worker is to be motivated, which is also the best outcome for the manager (see table below). Let us call this the base model.

Choice of Agent e (employee)	Utilities of Agent e (employee)	Utilities of Agent m (manager)
Motivated	$f(Y)$	Y
Unmotivated	$f(Y)-f(S)$	$Y-S$

We can now introduce the concept of cultural clash into the base model. Assume that agent m and e differ in terms of their expectations for something not directly related to productivity, such as a food item served in the canteen that agent e dislikes but agent m likes. This disagreement imposes a cost K_e on agent e when she chooses to be motivated and a benefit K_m on agent m . For simplicity, the exact reasons for this cost are left unspecified: perhaps being motivated incorrectly signals that the agent identifies with foreigners (e.g. imposing an identity cost--Akerlof and Kranton 2000). Regardless, the base model is no longer stable. As long as K_e is greater than the additional wages and benefits $f(S)$, the employee will choose to be unmotivated. By contrast, the manager will always desire the agent to be motivated as agent m has enhanced utility $Y+K_m$. Let us call this the cultural clash model (see table below).

The equilibrium strategy of the manager and employee may differ in a repeated game that allows for cultural adjustment. Assume that K_e diminishes in magnitude (eventually converging to 0) each time the worker chooses to be motivated and increases whenever the worker chooses to be unmotivated (corresponding to cultural adjustment). Assuming the integral of K_e over time is smaller than the sum of $f(S)$ over time (that is, the adjustment costs cannot outweigh the accumulated benefits from enhanced productivity), a fully rational worker will now choose to be motivated.

Choice of Agent e (employee)	Utilities of Agent e (employee)	Utilities of Agent m (manager)
Motivated	$f(Y)-K_e$	$Y+K_m$
Unmotivated	$f(Y)-f(S)$	$Y-S+K_m$

Finally, we add a coordination problem to the model. The manager now also has a simultaneous choice to either acquiesce to the demands of his employee or to insist on compliance. Acquiescing imposes a cost K_m on the manager's utility but gives the employee an added utility K_e to be motivated (see table below). Demanding compliance returns us to our original cultural clash model above. In a repeated game, the outcome with greatest utility for both groups is for the employee to remain motivated at all times and the manager to alternate between acquiescence and demanding compliance (since K_e and K_m both balance out to zero in this case). Unfortunately, it can be shown that this is a prisoner's dilemma situation where the agents choose a suboptimum equilibrium: unmotivated employees with managers demanding compliance. This is what we call mutual and self-reinforcing dissatisfaction. Neither has incentive to move out of their choice.

Choice of Agent e (employee)	Choice of Agent m (manager)	Utilities of Agent e (employee)	Utilities of Agent m (manager)
Motivated	Acquiesce	$f(Y)+K_e$	$Y-K_m$
Unmotivated		$f(Y)-f(S)$	$Y-S-K_m$
Motivated	Demand Compliance	$f(Y)-K_e$	$Y+K_m$
Unmotivated		$f(Y)-f(S)$	$Y-S+K_m$

The takeaway point from this illustrative model is that this is a *coordination problem*. If the employee can be assured that the manager will alternate between compliance and acquiescence, he or she receives higher utility to be motivated over time. Coordination problems of this nature can in principle be solved by adopting company negotiation procedures. If the employee has the ability to negotiate or discuss with the manager his or her grievances or desires, the manager is also able to coordinate with the employee by granting assurances of occasional acquiescence (gaining overall utility in the process as well). Stated formally, shared common expectations about how negotiations should proceed (*just process*) help managers and

employees achieve a Pareto superior outcome by allowing them to coordinate over future actions.

This is precisely the problem with clashes in just process: it removes the possibility of coordination. As noted above, individuals are highly sensitive to perceived injustices toward them. When there are clashes in just process, neither side will compromise because they do not want to be seen as a “dupe.” Because neither side can be assured that the other will compromise, their best choice is to escalate and insist on full compliance with their own ideal behavior, leading to mutual dissatisfaction. This theoretical framework is oversimplified, but it illustrates why mismatches about just process can drive high amounts of dissatisfaction, even conditional on material working conditions and cultural differences on dimensions other than just process.

Data and Methods: Foreign Companies in Ethiopia

To investigate whether mismatches in expectations about just process can account for variation in dissatisfaction across firms, we conducted 16 case studies of factories in the Addis Ababa area of Ethiopia. (For more information on the Ethiopian context, please see Appendix A.) We sampled purposively so as to maximize the degree of variation across firms, in terms of industry, size, and ownership. In collaboration with the Ethiopian Development Research Institute (EDRI), we identified firms across key Ethiopian industries with production in the Addis Ababa area. Eleven of the surveyed firms agreed to participate in the study ahead of time, while five others agreed only after a first visit. The 16 firms included in the sample include three beverage producers, two construction companies, two textile factories, three tanneries, four leather shoe producers, and two plastics manufacturing enterprises. In terms of national origin of the firms, seven are domestic, six are Asian companies, and three have European ownership.

Firms vary in size, employing approximately 600 workers on average and ranging between 80 to 1700 employees. In each firm, we observed the factory floor. We also interviewed managers, middle managers, and factory workers (see Table 1 for a list of all case study firms and their basic statistics).

We recognize that the data that we collected suffers from a number of limitations. First, we do not claim to have unbiased evidence from the perspective of workers, since the workers we were able to speak with were all chosen by management. Responses given by workers likely underestimate their true level of dissatisfaction with management. Second, the sample of firms is small, and it is designed to include a wide spectrum of industrial firms. While we were able to visit and observe each of them in person, we do not claim that the sample is representative of Ethiopia as a whole. Our intent was not to do a representative survey but rather to conduct in-depth interviews and first-hand observations in order to explore potential explanations for the mutual dissatisfaction between workers and management that had been brought to light by other studies (e.g., Bräutigam and Xiaoyang 2011; Blattman and Dercon 2012; Geiger and Moller 2015).

Method for coding mutual dissatisfaction

Roughly half (5 out of 9) of the foreign factories we visited showed signs of mutual dissatisfaction between management and workers. None of the domestic factories showed signs of mutual dissatisfaction. To help the reader review our coding decisions for all factories, we have included our decisions for each factory in Table 1 and describe our analytical approach below.

Managers and employees in a given factory were coded as being in a state of mutual dissatisfaction if and only if two conditions were met. First, managers had to say that the need

for continual oversight and the lack of motivation (or discipline) on the part of the worker was a serious or widespread problem. Second, Ethiopian workers and middle managers had to tell us that they disliked their job and indicate lack of motivation. For instance, foreign managers would note that workers would always question orders instead of simply executing them, while workers would indicate that they disliked the work environment.

Note that we code mutual dissatisfaction as a binary state rather than a continuous variable. We do so in part because coding more or less dissatisfaction opens too much room for interpretation. To mitigate problems associated with researcher interpretation, we asked our Ethiopian collaborator (who traveled with us on interviews) to offer his own coding of mutual dissatisfaction, and his interpretation is aligned with ours. Regardless, to give the reader intuition for how we coded firms as varying in mutual dissatisfaction, we provide full case studies of two Chinese firms operating in similar industries in Appendix B. The two firms (Firm 6 and Firm 11 as named in Table 1) are roughly of equal size and productivity. However, they display different levels of mutual dissatisfaction.

Our analytic approach is to compare firms such as Firms 6 and 11 to understand the causes of mutual dissatisfaction. In coding through our interview and field notes, we found three types of mismatches between workers and management in our sample firms that were strongly associated with mutual dissatisfaction. By contrast, those with fewer mismatches on these dimensions experienced less mutual dissatisfaction.

Results: Mutual Dissatisfaction in Foreign-Managed Firms

Mismatch 1. Labor laws as negotiation framework versus unreasonable bureaucracy

The first and most direct dimension where we observed mismatches in just process between workers and management was in terms of whether labor laws are regarded as a legitimate negotiation framework or as unreasonable red tape. By design, Ethiopian labor laws (in particular, the 2003 Labor Proclamation No. 377 and its subsequent amendments) are meant to ensure that managers and workers “maintain industrial peace and work in the spirit of harmony” (Ethiopian Labor Proclamation 2003). To accomplish this aim, the laws provide stipulations for the creation and termination of employment contracts, for compensation, severance pay, hours of work, overtime, leave, occupational safety, health measures, and penalties for noncompliance. More importantly, the law stipulates *how* such expectations should be negotiated between managers and workers, such as regulations for how collective agreements are to be made and enforced.

All seven domestic companies interviewed stated that the law is a legitimate basis for negotiation. The common expectation in these companies is that regulations serve as a benchmark for discussion. As one worker noted, “if there is a disagreement, we should begin by seeing what the law says.” There was variation in opinions across the workers we interviewed, but their opinions shared a basic assumption that the law serves as a basis for discussions about labor problems. When prompted for opinions about the importance of labor laws, another worker simply stated that “the law is the law.” One Ethiopian manager in the leather sector (Firm 8) viewed the law as a source of guidance: “the law helps us, it guides us.”

In contrast, managers at four of the nine foreign companies perceived the local Ethiopian labor regulations to be unreasonable red tape. For instance, one European general manager of a food and beverages firm reported being frustrated with the “generous” compensation packages of soon-to-retire workers” some of whom had amassed 2-3 years of vacation days. Another

manager noted that “there is no way to make a profit under these laws.” At one extreme, a Chinese manager told us that “annual leave here is ridiculous: I worked for six years at my company and got one day of annual leave. Here, you start with 14 days of annual leave.” In sum, Ethiopian workers and managers share an expectation of the law as basis for negotiation while certain foreign managers operate under a common expectation that the labor law is unreasonably bureaucratic.

These differences in expectation confound negotiations about working conditions and feed into mutual dissatisfaction. Indeed, in all four factories where managers viewed the law as unreasonable, mutual dissatisfaction ensued (see Table 1). We present two representative examples here. First, in one Chinese factory, an Ethiopian worker accused the factory of failing to give its workers the status and benefits of permanent workers. The worker representatives attempted to reason with their foreign managers by following legal procedures. However, the manager ignored their request, and one worker representative even said he was yelled at when he mentioned the law to the Chinese manager. As the representative said to us, “it is ok if they cannot get the law right [cannot fully comply with all stipulations], but it is wrong for them to disrespect the law. How can we negotiate if they will not respect the law?” When we interviewed the Chinese manager for her side of the story, she said she felt like the representatives were trying to coerce the factory by using the law as leverage. As she notes, “even the strongest labor laws in China are nothing like the Ethiopian law.” She wanted to have a discussion with the worker representative to find a compromise, but the worker representative “intensely annoyed” her by continually referring to the law.

The second case is similar and also occurred in a Chinese manufacturing firm. A worker accused the factory of firing workers on the spot without going through the mandated warnings.

Again, worker representatives sought to use legal channels to negotiate with their managers. And again, the manager felt that the workers were not attempting to work things out with him but instead tried to use the law to coerce him. As it turns out, the case eventually escalated into a lawsuit against the factory--a situation that left both sides dissatisfied.

In both cases, the difference in expectations about just process appears to have created mutual ill-will. In the two examples cited above, the Chinese managers see their workers as “continually trying to take advantage of them.” According to one Chinese manager at Firm 7, the workers go as far as stealing materials from the firm. Similarly, the workers see the Chinese managers as being “disrespectful of their country.” More importantly, employees see the managers as rigid and inflexible. As one Ethiopian worker representative at Firm 6 notes: “how can we negotiate with them if they will not share common ground? [The biggest challenge] is bridging the country’s labor law and the company’s law.” The takeaway point from both examples is that each side differs in how they expect laws to function during negotiations. The common expectation among domestic workers is to rely on the legal framework. The common expectation among managers is that the law is unreasonable.

By contrast, in firms where these meta-expectations are aligned, workers and managers do not experience mutual dissatisfaction. For instance, one Ethiopian employer described the law as “essential to protecting workers,” “not generous enough for the workers,” and being “too much in the favor of the employers” (Firm 8). While we cannot assess the degree to which this manager truly holds this opinion or whether it is lip service, what matters is that he understands common expectations around the law. In his firm, workers demonstrated a far higher degree of satisfaction. Managers at five foreign factories (Firms 1, 2, 3, 11 and 15) also aligned their expectations with domestic expectations about the role of law. For example, the CEO of a food

and beverages company (Firm 1) publicly described the labor laws as creating a consistent baseline and as reducing inconsistencies between foreign and domestic firms. Workers and management in this particular firm experienced less dissatisfaction than firms where laws were seen as unnecessary red tape.

Taken as a whole, the evidence suggests a strong correlation between diverging conceptions of the role of labor laws in negotiations on the one hand, and mutual dissatisfaction or contention between workers and their foreign managers on the other. We nonetheless recognize that these findings are more illustrative than demonstrative. For example, we did not track the firms over time, so we cannot know for sure if the differences in opinions about the law are the cause or effect of mutual dissatisfaction. However, if these results are confirmed by other studies, they are quite surprising. For instance, we might a priori expect the country's strict regulatory environment to act as a common ground for labor negotiations. After all, the law is a form of procedural justice. Yet in this case the existence of legal framework is not what is critical: instead, it is whether two groups can agree on its applicability.

Mismatch 2. Participation and fairness in decision-making

A second dimension where we observe mismatches in expectations of just process is whether decisions about working conditions should incorporate worker participation. The common expectation of Ethiopian workers is that working conditions ought to be set via discussion between managers and employees to be fair. Ethiopian workers expect that they should be able to discuss the nature of the work with their superiors and offer suggestions for improvement. One male worker in Firm 14 noted that, "in Ethiopia, I put in the effort to accommodate my boss, and he should be respectful and open to my suggestions as well." There is no expectation that managers incorporate all of their suggestions, but workers expect to be part

of the conversation. For example, one Ethiopian employee at a foreign factory (Firm 7) felt that being open to worker suggestions was so important that he hoped the Ethiopian government would incorporate trainings for foreign investors to be more respectful of worker ideas. Perhaps the best example of this expectation was in how Ethiopians view labor unions, which are meant to ensure that discussions take place over labor conditions between workers and managers. In all domestic firms we interviewed, managers assumed labor unions would have to weigh in before they could make any changes to their management practices. Likewise, one worker union representative in a domestic shoe manufacturer (Firm 13) perceived management as “a partner with which it can solve problems.”

By contrast, in five of the foreign firms we visited (Firms 6, 7, 9, 10, and 15), the common expectation is that managers make unilateral decisions regarding working conditions. Notably, these are all Chinese or Indian firms. In such firms, the common expectation is that the fairness of a policy is independent of whether workers had a say in making it. If workers find a policy unfair, they can bring up grievances about a policy, which can then be adjusted to ensure fairness. But managers shared a common expectation that having worker participation in decision-making about working conditions is highly inefficient. As a manager in a Chinese manufacturing firm (Firm 7) noted, “the workers have too many demands.”

In all cases where mismatches in this expectation occurred, mutual dissatisfaction ensued. For instance, workers in both Firm 6 and 7 felt that managers refused to listen to their suggestions to adapt policies to be sensitive to mourning periods. Ethiopian workers wanted three days leave after a family member has passed away. One worker noted that “it is ok if they gave a reason not to accommodate us, but they do not even listen to our suggestions.” This perceived refusal to listen to suggestions is taken as disrespect, and workers respond with lower

discipline, diminished productivity, and even insubordination. For instance, the managers in Firm 7 were increasingly frustrated that workers were stealing supplies and arriving late to work.

By contrast, when expectations about procedural justice are shared between workers and employers, they appear satisfied with one another. At an Ethiopian manufacturing firm (Firm 8), the general manager exclaimed that “you can solve any problem by discussing or negotiating.” Another manager in a foreign-owned firm (Firm 2) spoke of his open-door policy, inviting workers to come and discuss their work and complaints at any time: “My door is always open. I am just trying to keep them [the employees] happy, to solve their problems.” The firm did not demonstrate signs of mutual dissatisfaction. This is true even in foreign-owned firms: in Firm 11, the foreign manager sought to reduce turnover and improve worker satisfaction. Instead of unilaterally deciding to increase overtime pay to improve satisfaction, he discussed with workers how to compensate them for overtime. The end result was that he built showers for employees in exchange for longer work hours. The firm also did not suffer from mutual dissatisfaction: the manager understands that the local workers demand to participate in the decision process by which work expectations are set.

Mismatch 3. Employee as family versus employee as investment

To summarize, the first type of mismatch in procedural justice that we have discussed is whether the law ought to guide decisions about working conditions. The second mismatch is whether or not workers ought to participate in decision-making about work conditions. Both mismatches pertain to expectations of which procedures ought to be implemented and whether these procedures are “just.” In this section, we discuss a third type of mismatch: how decisions about working conditions ought to be motivated or justified.

Ethiopian workers generally assume an extended familial relationship with their employer; moreover, there is a common expectation that the firm should have a familial relationship with their community. Put more simply, Ethiopian workers tend to perceive the main objective of the firm as providing jobs for local workers and as contributing to the economy. This leads workers to expect the firm to motivate their decisions about working conditions as providing for families and social needs. For instance, across the seven domestic firms we visited, all managers assumed as a matter of fact that their employees were like family members. We stress that managers may not believe this in fact, but they at least play to these expectations by uniformly using the word “family” to explain their relationship with their workers. One manager at Firm 16 even argued that their company makes decisions about working conditions by considering how it would treat family members: “the company is for the people, not for profit. Profit is not the most important.” Another manager (Firm 8) explained that the firm’s owner “doesn’t want to make a lot of profit from this tannery” but that he wants to “have taken care of [his] workers.”

By contrast, in seven foreign firms that we visited (Firms 1, 6, 7, 9, 10, 11, and 15), foreign managers believed all decisions about working conditions ought to be justified in relation to profits. This point of view does not mean that workers ought to be ignored. If anything, this motivation in some cases led to better material working conditions for workers. For instance, Firm 11 gives a high wage increase (roughly 20% of base pay) to “role model employees.” This wage raise was described to us as an investment in the workforce. In Firm 9, the Chinese manager said he sees himself as caring deeply for his employees. As evidence for this, he described an employee in whom he “invested in carefully.” He had provided training and a promotion over the past year. In the month before the interview, he paid for the worker to receive

training as an accountant. In his view, the worker had been given a great opportunity for which he should have been grateful. Thus, he was dissatisfied when the worker instead demanded for an additional raise in light of his newly-acquired skills. “This worker is not at all thankful, he tried to take advantage of our investment in him!”

Mutual dissatisfaction was observed in five out of seven foreign firms where workers, and managers held different views about whether workers ought to be treated as part of an extended family. Significantly, the workers appeared less dissatisfied by actual policies than by the process by which the policy was motivated and made. For instance, Firm 6 has a zero tolerance policy for lateness, counting them as absences. Other firms have direct monetary penalties for even minor instances of tardiness. Workers accept that they will be disciplined for tardiness. However, they are dissatisfied because of the way the late policies are framed and motivated. Specifically, workers in Firm 6 feel “like objects” because they think managers see them as investments that would otherwise be wasted when they come late.

By contrast, in firms where these meta-expectations were met, dissatisfaction was low or nonexistent. For instance, the American-owned Firm 3 appears to have no problem with manager or worker satisfaction. They recently hired an employee counselor specifically to interact with workers and hear their needs. The human resources manager at Firm 3 explained this choice in the following way: “we treat our workers like they are part of our family.” Interestingly enough, the company brochure also details four training programs for workers that are meant to “build a pipeline of talent so that we have leadership in the future.” However, the human resources manager explained that these brochures are for foreign investors, while the programs are advertised within a narrative of family relations in brochures to workers and company billboards.

Negative Cases: Exceptions to Our Hypotheses

Taken together, the evidence appears to support the claim that mismatches in just process are correlated with mutual dissatisfaction. Of the five firms that experienced mutual dissatisfaction, all five had mismatches on one or more dimensions discussed above. Conversely, of the 11 firms that did not experience mutual dissatisfaction, ten do not appear to have mismatches along any of the three dimensions. Although most are Ethiopian-owned (domestic) firms, four of these firms are foreign-owned, which suggests that the problem of mismatches is not merely a function of foreign or domestic ownership. In short, the correlation between mismatches and mutual dissatisfaction is relatively strong.

That said, because our study relies primarily on the collection and coding of qualitative data, it is possible that our conclusions may be biased. To reduce chances that we interpreted our data too liberally, we discuss negative cases that do not support our hypotheses here.

First, Firms 1 and 9, while experiencing mutual dissatisfaction, do not appear to have mismatches in all hypothesized dimensions. One explanation for this exception is that a single mismatch is all it takes to lead to a suboptimal equilibrium. It may not be necessary for all three dimensions to be mismatched for mutual dissatisfaction to occur. Both cases also had unique circumstances. Firm 1 had just undergone a transfer of ownership from a domestic owner to a foreign owner at the time of the interview. This may be exacerbating dissatisfaction because the managers and employees must adjust to several changes in expectations at once. Moreover, the manager at Firm 9 did actually express frustration toward the Ethiopian labor laws, but he did concede that the firm needed to follow local laws.

Another negative case is Firm 11, which did not exhibit mutual dissatisfaction between its management and its workers, yet registers a mismatch in whether labor management practices

are motivated in terms of familial relations or investments. We conjecture that Firm 11 avoided mutual dissatisfaction by signaling to workers its willingness to compromise. Namely, by making significant efforts into building worker facilities (such as showers and canteens) in response to worker demands, management demonstrated its willingness to coordinate with workers.

A final special case is Firm 15. The management at this Chinese firm expects its workers to follow orders with little to no say in the process and rewards them solely on each worker's individual output. Surprisingly, while this would otherwise have led to mismatches in other firms, the workers at this firm appear to hold the same expectations as their employers. Therefore, we coded this firm as having no mismatches in expectations regarding just process. We conjecture there are two reasons for this anomaly. First, the general manager explained that he hired almost exclusively women that displayed "good attitude. Specifically, he "sought out women who were respectful, obedient, and quick learners". As he notes, he only chooses employees who can "communicate with the Chinese technicians, accept that their managers know what they are talking about, never pick fights, and understand what is expected from them." This suggests that the management has endeavored to select workers whose expectations coincide with those of the firm. The firm was able to be so selective by hiring primarily from nearby rural areas, where the supply of labor was greater and opportunities fewer. This may have reduced workers' willingness to express dissatisfaction (both to us and to their managers).

Conclusion

In this paper we have sought to explain variation in dissatisfaction across 16 domestic and foreign-managed factories in Ethiopia. We first developed a theoretical framework to

suggest why mismatches in expectations regarding just process remove the ability for coordination between managers and employees of different cultural backgrounds, thus leading to mutual dissatisfaction. The evidence is consistent with this idea and suggests that dissatisfaction stems from mismatches in expectations of just process in the Ethiopian context. In companies where dissatisfaction occurred, mismatches occurred along three dimensions. First, foreign managers and Ethiopian employees did not share expectations about whether labor laws are excessive red tape or serve as a fair basis to govern the negotiations between managers and employees. Second, they disagreed as to whether it is fair for workers to participate in decisions regarding working conditions, or whether managers should be allowed to set all regulations unilaterally. Third, they disagreed as to whether changes to working conditions were fair when such changes were motivated by a view of workers as extended family members versus investments for increased productivity.

One surprising result is that the law, itself supposed to govern just process, did not solve this coordination problem. Even as early as Coase, scholars have noted the importance of just process in solving prisoner-dilemma type coordination problems. However, in this case, because of differing perceptions of the importance of law, the law became a source of cultural mismatch (rather than a coordination device). This kind of situation is not uncommon. As Ellickson (1991) suggests, ranchers in Shasta County rarely resorted to the law in dealing with conflicts because they were able to coordinate based on informal norms. Similarly, in the case of Ethiopia, the strong labor regulations do not reduce conflict. In fact, they ironically drive additional conflict when informal norms and common expectations *about* how laws ought to factor in decision-making are not shared between foreign managers and domestic employees.

We temper these conclusions in two ways. First, mismatches in expectations of just process may only be mediators rather than fundamental causes for mutual dissatisfaction. That is, a complex mixture of interactions between industry type, gender ratio of workers, supply and demand, cost of supplies, or specific management practices may be driving the mismatches in the first place. Disentangling these various factors would require more data and a larger sample. Second, our results are more exploratory than confirmatory. While it is true that we are observing common expectations (which do not require a large sample size to ascertain), it is important for future research to further confirm whether these arguments hold more broadly.

With these qualifications in mind, this “mismatch in just process” account contributes to the literature in two ways. First, it appears to explain variation in dissatisfaction more completely than purely materialist explanations. In many cases, the common expectations of many foreign managers would have yielded better material conditions. For instance, many managers sought to give their employees better training, with promises of higher pay. Conversely, the law is not always in the material interest of workers – e.g., it limits overtime work and caps certain bonuses. Instead, we argue that the problem lies in the inability to coordinate. Material incentives alone were seemingly unable to sway workers. Differences in how employees and managers expect the law to govern the negotiation process made it impossible for both sides to even discuss changes or grievances without feeling unfairly treated. Irrespective the material conditions offered, employees felt unfairly treated by what they perceived as an unjust process--and the psychological salience of this unfairness outweighed any material gains. By contrast, employees were willing to tolerate poorer working conditions when they were reassured by the knowledge that managers would be responsive--that they would be able to negotiate on fair grounds with their managers.

Second, the mismatch in just process account systematically identifies exactly which cultural differences drive dissatisfaction in foreign-managed firms (or at least manufacturing firms in Ethiopia). Theoretically, we identify that differences in just process are where cultural mismatches truly drive mutual dissatisfaction (and not just cultural difference in general). Substantively, we identified three specific cultural mismatches that could be targeted by managers and policymakers to improve coordination with workers or employees. If confirmed in future work, these results may have large welfare and productivity implications, especially given the importance of foreign investment in driving growth and the negative effects of widespread mutual dissatisfaction between managers and employees.

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Appendix A

Ethiopia is the second-most populous country in Sub-Saharan Africa, and one of the world's poorest countries. Ethiopia's economy remains largely agrarian. The share of the manufacturing sector has plateaued just above 4 percent of GDP for most of the past decade, representing below 5 percent of total employment according to the World Bank (Geiger and Moller 2015).

However, Ethiopia has also been experiencing substantial growth over the past decade. Its gross domestic product (GDP) has grown by an average of 10.9 percent over the period, compared to a 5.4 percent average throughout Sub-Saharan Africa. The Ethiopian government has adopted a number of policies, including the establishment of several industrial parks across the country, to attract foreign direct investments (FDI) and to support a more dynamic private sector. These initiatives, combined with the country's comparatively low labor costs, have been reasonably successful in attracting foreign investors: Ethiopia was Africa's eighth-largest recipient of FDI last year, up from 14th position in 2013 (Ernst and Young 2015). This shift is part of a larger trend: as wages rise in China, international firms are increasingly seeking to reallocate their low-skill intensive manufacturing jobs to emerging market economies with low wages such as Ethiopia (Chandra, Lin, and Wang 2013).

As Ethiopia experiences an influx of foreign manufacturers, a number of challenges remain. For instance, surveys find that employers experience a shortage of skilled workers. Softer skills such as work ethic and commitment are in particular high demand (Geiger and Moller 2015). Perhaps more interestingly for the purpose of this paper, Ethiopian firms also reportedly encounter difficulties in terms of labor management. In a survey conducted by the Addis Ababa Chamber of Commerce (Minas and Berhe 2011), three quarters of responding enterprises report labor problems (including lack of labor discipline and insubordination) that affect their bottom lines.

Another challenge is the country's heterogeneous productivity performance. On the surface, labor productivity in Addis Ababa compares well with firms in peer countries with similar levels of development, such as Vietnam and Zambia. But this appears to largely reflect higher capital intensity (Geiger and Moller 2015). Ethiopian firms compare less well in terms of total factor productivity or capital productivity, suggesting that capital invested in Ethiopia is relatively unproductive. Furthermore, according to the same study, productivity performance is heterogeneous among firms: young, domestic, private firms are less productive than older, foreign owned, and publicly owned firms (Geiger and Moller 2015). The rise of the manufacturing sector, the influx of foreign capital, and the documented productivity challenges – all key factors in determining long-term economic growth – make Ethiopia an ideal setting in which to take a closer look at the determinants of labor relations.

Appendix B: Two Cases Studies

Case 1: Firm A

Firm A is a Chinese-owned factory operating in the leather sector and located at the outskirts of Addis Ababa. It was founded in 2009 and employs 400 workers. The gender of the workers is divided roughly evenly. The median age of workers at the factory is 24 years old. These workers are generally inexperienced, most being first-time laborers from the nearby villages.

Forty Chinese managers supervise the factory. The company's management, including the general manager, is comprised solely of Chinese nationals. The management staff live in a compound near their offices. They eat together and rarely mix with any of the Ethiopian workers or middle managers. The management implements strict disciplinary measures. For example, wages are docked by one day if a worker is late and by two extra days if the worker is absent for an entire day.

Firm A exemplifies mutual dissatisfaction between workers and foreign managers: their relationship is highly adversarial. By and large, the Ethiopian workers are dissatisfied with their jobs, and the Ethiopian workers mistrust their Chinese managers. According to management, the company has not increased wages because of insufficient productivity and low profitability. The Ethiopian workers, however, believe this is a ruse to pay them low wages. In addition, workers say they have been punished for missing work in order to attend the funeral of coworkers or for not coming to work during the mourning period. Many of these measures directly contradict the requirements set out in the country's labor laws. This creates additional tension with the workers who believe that the company's practices are illegal but have no avenue to seek change.

An Ethiopian human resources manager reported feeling like "a powerless puppet." In his view, the general manager does not listen to his advice and refuses to see things from an Ethiopian perspective. According to this respondent, "the Chinese see everything from the work angle, it's all about 'do what I order you to do.' In Ethiopia, our culture does not accept this." The disgruntled manager continues: "I want to appreciate the strong Chinese working culture, but they also need to adapt that experience to Ethiopia, and have patience for Ethiopian workers. They want to directly apply their labor management style, and this creates conflict. They think their job is to turn Ethiopian workers into Chinese workers. It's just silly!"

It is not only the workers who are dissatisfied. Management too perceives that there are widespread work ethic and discipline problems. For example, the general manager stated that "employees are simply not working hard enough. They will look for ways to take advantage of us, especially if left unsupervised." According to management, during the rainy season on an average day five employees arrive late or simply do not show up for work. This is regarded as a serious issue by managers, who close the gates to the factory at the beginning of the work day and count late workers as absentees. In addition, there have been two instances of employee theft of company property in the past six months.

A Chinese HR manager who has worked at the factory since it opened explains, "workers simply are out to take advantage of the company and always want more pay and more benefits." She sees the law as unreasonably generous to the workers, far beyond what you would find anywhere in China: "If we had to follow all these rules, we'd go bankrupt!" In her view, there is an underlying discrepancy between the Ethiopian and Chinese understanding of the responsibility of a company. She feels the company is meant to make a profit, not to "serve and pamper its workers".

This mutual dissatisfaction leads both workers and managers to dig in their heels. Supervisors fire workers on the spot if they are unhappy with them, simply telling them to "leave your shoes and clothes and leave the company!" Workers, knowing that the labor laws do not allow for the arbitrary firing of workers come back the next day, further infuriating managers and leading to what one manager called "rampant mistrust" within the factory.

Case 2: Firm B

A subsidiary of a Hong Kong company, Firm B has been producing leather products for the export market in Ethiopia since 2009. It has grown steadily to employ just over a thousand workers. The factory employs over 80% female workers, most of whom are poorly educated (i.e., have less than a senior high school degree). Most are inexperienced workers because, according to management, “[experienced] workers come with problems,” but inexperienced workers can be trained to “do things the right way from the get-go.” The company has experienced high turnover – around 7.5% per month. However, it is not uncommon for workers who leave for a higher paying job to come back a couple of months later looking to get reemployed.

The factory is under the leadership of a foreign general manager who has previously worked in China. Notably, Firm B has largely similar rules and regulations as Firm A -- although penalties for lateness and absences are less harsh and disciplinary methods are more systematized. Moreover, upper management shares the same prejudices against Ethiopian workers as managers in Firm A. For instance, the general manager commented that “the Chinese are born to work, but the Ethiopian are born to relax.”

While Firm B resembles Firm A in a number of ways, workers do not report being dissatisfied. According to workers, the “mood in the facility” is good, and the workers we spoke to stated that they are happy to work overtime because of bonuses. They also assert that they have hopes of moving up the corporate ladder.

Managers, too, appear to be generally satisfied with their workers. Moreover, managers think that the situation is improving day by day. For instance, the general manager expressed that, at the beginning of operations, he had to be present at the factory at all times, saying that “the workers only work if you are there, watching over them.” However, both foreign and Ethiopian managers feel that worker discipline has improved over time.

The general manager observes that the reason the company has not fallen into mutual dissatisfaction is because of their efforts to motivate and accommodate workers. The company has improved its facilities, including a dining hall that offers lunch at a heavily subsidized price, and is working on building showers and personal locker rooms. The firm also offers a number of benefits beyond the requisites of the country’s labor regulation, including transportation to and from the factory as well as a new production-based incentive system. The company is intent on promoting and giving raises to promising and dedicated workers, in an effort to create what it describes as “role model workers” to show others that diligence pays off. The consensus among management is that these efforts are improving labor productivity and worker satisfaction.

About 30 workers from the company’s Chinese factories are also present at the factory. They are assigned to Ethiopia on a 9-months rotational basis, during which time they are given a technical assistance role. In that capacity, they are not directly involved in managing workers but rather with training them and handling advanced machinery. We were told that the reasoning behind this organizational design is the recognition that the Chinese management style differs in many respects from the Ethiopian management style. Ethiopian middle managers explained that they often have to mediate between workers and foreigners. “There are cultural difficulties,” one manager told us, “but we tell them that they must respect the country, the culture, the law. When we explain this, they understand. [Bridging cultural differences] is my job.”