



Network for Studies on Pensions, Aging and Retirement

Employee Perspectives and Attitudes Towards Demotion

Robin de Graaf

NETSPAR ACADEMIC SERIES

MSc 08/2017-019



Employee Perspectives and Attitudes Towards Demotion

Master Thesis

Robin de Graaf

I6031444

Maastricht University

School of Business and Economics

Management of Learning

24.08.2017

Dr. R. Montizaan

ABSTRACT

Purpose - The purpose of this thesis is to examine the employee perspectives and attitudes of employees regarding demotion. Furthermore, I investigate whether this depends on the personal characteristics risk aversion, locus of control or negative reciprocity, or the feeling that demotion is a sign of personal failure.

Design/methodology/approach – I used unique employee survey data retrieved from the ROA health care 2016 survey and matched administrative data provided by the pension fund of the health care sector (PGGM). This data set comprises cross-sectional information on the labor market position of Dutch employees employed in health care or social services. Moderating and mediating analyses are estimated using OLS, and consist of the variables openness to demotion, attitudes towards demotion, and the personal characteristics risk aversion, locus of control and (negative) reciprocity. Furthermore, I analyzed whether the feeling that demotion is a sign of personal failure influences the openness towards demotion.

Findings - I find strong evidence that positive attitudes towards several aspects of demotion have a positive impact on the degree to which an employee is open to the idea of getting a demotion. Negative reciprocity and openness to demotion are strongly negatively related. Additionally, I analyzed the relation between openness to demotion and the personal characteristics locus of control and risk aversion. The results of these analyses showed to be insignificant. Furthermore, I analyzed the feeling that demotion is a sign of personal failure. When this is the case, he or she is less inclined to be open towards a demotion. However, this does not depend on the personal characteristics analyzed in this thesis.

Practical implications – This thesis gives an insight in how the perceptions and attitudes of employees influence their opinions about demotion. Considering the results, organizations should avoid using demotion, but rely on training and development instead. When demotion is unavoidable, be sure the action is legal and that the organization understand the (negative) consequences. Moreover, this thesis analyzed the influence personal characteristics have on the opinions regarding demotion. I found that especially negatively reciprocal employees hold negative opinions regarding demotion. For employers considering implementing a demotion, it might therefore be useful for employers to investigate what kind of employees are being demoted. My results underpin that not one employee is the same and different people react differently on various situations. Managers should be particularly careful with negatively reciprocal employees, since they can cause the most harm on to the organization by retaliating and demotivating other employees.

Contribution - This thesis fills a gap in the demotion-literature, by empirically analyzing how the demotion of workers is perceived by employees and to what extent these perceptions and attitudes are influenced by three personal characteristics: risk aversion, locus of control and negative reciprocity.

Keywords - demotion, risk aversion, locus of control, (negative) reciprocity

Table of Contents

I.	INTRODUCTION.....	1
	Demotion and the Implicit Contract.....	11
	Employee Perspectives and Attitudes regarding Demotion	14
	Heterogeneity among Employees and their Attitudes towards Demotion	16
	Risk Aversion.....	18
	Locus of Control.....	19
	Negative Reciprocity	21
	Theoretical Framework in an Overview	23
III.	DATA.....	25
	Description	25
	Measurement.....	26
	Descriptive Statistics and Correlations.....	30
IV.	ESTIMATION RESULTS.....	35
	Attitudes towards Demotion as a Predictor for Openness to Demotion	35
	Risk Aversion, Locus of Control and Neg. Rec. as Predictors for Openness to Demotion	38
	Personal Characteristics as Predictor for Attitudes towards Demotion	42
	Feeling of Personal Failure as a Moderating Factor	49
V.	CONCLUSIONS.....	51
	Discussion	53
	Limitations and Future Research.....	55
	REFERENCES.....	57
	APPENDIX.....	a

List of Figures

Figure 1 Percentage of Organizations Applying and Considering Demotion in Europe, 2009	2
Figure 2 Model 1	23
Figure 3 Model 2	24
Figure A1 Openness to Demotion Scale	a
Figure A2 Distribution Openness to Demotion	b
Figure A3 Distribution Personal Failure.....	b
Figure A4 4-item abbreviated Rotter Scale.....	c
Figure A5 Distribution Locus of Control	d
Figure A6 Distribution Age	d

List of Tables

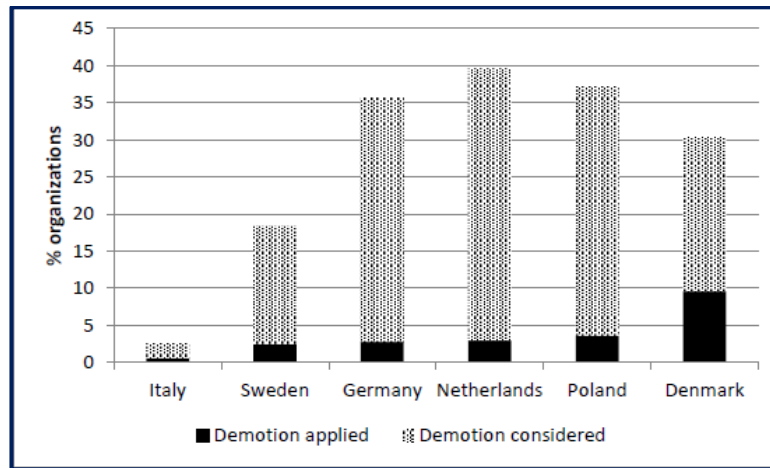
Table 1 Descriptive Statistics	32
Table 2 Correlation Matrix of Main Variables & Control Variables.....	34
Table 3 Attitude on Openness to Demotion	37
Table 4 Personal Characteristics on Openness to Demotion	41
Table 5 Personal Characteristics on Attitudes towards Demotion	44
Table 6 Attitudes and Personal Characteristics on Openness towards Demotion	46
Table 7 Personal Characteristics on Openness to Demotion (dummies).....	48
Table 8 The Feeling of Personal Failure on Openness to Demotion.....	50
Table A7 Risk Aversion on Openness to Demotion (dummies).....	e

I. INTRODUCTION

Demotion, or downward moves, is generally seen as the lowering of the absolute or relative hierarchical placement of an individual in an organization, often with reduced responsibilities and less quality expectations (More, 1962). Demotion does not necessarily require a cut in pay (Carson and Carson, 2007). Although demotions regularly occur in settings such as sports teams in which players are sent down to a lower team when their performance fails, demotion at the workplace is not so common. However, recent literature (e.g. Van Dalen and Henkens, 2016) suggests that the introduction of demotions is on the agenda of many employers.

Kohl and Stephens (1990) interviewed the owners/managers/personnel directors from 114 firms in the U.S. with 100 or more employees and asked them whether demotion was, or could be, a useful personnel planning tool. From this sample, 44% answered yes. Moreover, they asked whether their firm would consider using demotion in the future, to which 50% answered yes. Furthermore, Van Dalen and Henkens (2016) analyzed whether employers consider using, or already apply demotion in their organization, using a European wide survey. Employers were asked to what extent they apply or consider several HR instruments in their human resource policies. Demotion (defined as lowering of rank and/or wage) was one of the instruments described and Figure 1 depicts the outcomes for the various countries in the survey. The figure shows the percentage of organizations in several countries that applied demotion in their firm (the black bar) and the percentage of organizations that consider to use demotion (the dotted bar).

Figure 1 Percentage of Organizations Applying and Considering Demotion in Europe, 2009



Source: van Dalen and Henkens (2016)

It becomes clear from this figure that demotion is certainly on the mind of a considerable number of employers in Germany, Poland and the Netherlands. However, it is not yet regularly applied. It is expected that employers will remain interested in demotion in the future, as firms are currently still dealing with the aftermath of a recession as well as with the consequences of an aging labor market (van Dalen and Henkens, 2016).

Demotion, however, is a managerial concept that has not yet received much attention in the economic literature. Well-known management and economic studies (Milgrom and Roberts, 1992, Lazear, 1998) primarily focused on promotion as an incentive mechanism to employees, but the term ‘demotion’ is either missing, relegated to footnotes or is left by the author as a suggestion for future research (Lazear 1995). Only a handful of articles have studied demotion (Carson and Carson, 2007; Hall and Isabella, 1985; Hedaa, 1978; Kohl and Stephens, 1990; More, 1962). These studies merely discussed the different forms demotion can take (More, 1962), the causes and alleged consequences of demotion (Carson and Carson, 2007; Hall and Isabella, 1985; More 1962) and why demotion can be beneficial for HR

management (Hall and Isabella, 1985). What is not researched yet is how *employees* experience demotion.

This thesis fills this gap in the literature by empirically analyzing how demotion is perceived by employees and to what extent these perceptions and attitudes are influenced by three personal characteristics: risk aversion, locus of control, and negative reciprocity.

The research questions that will be analyzed in this thesis are:

- *What are the attitudes of employees regarding demotion?*
- *To what extent are employees open towards a demotion?*
- *To what extent are the openness towards- and attitudes regarding demotion influenced by risk aversion, locus of control, and negative reciprocity?*
- *Are the openness towards- and the attitudes regarding demotion influenced by the feeling that demotion is a sign of personal failure?*

Demotion in Existing Literature

Within the economic literature, demotion usually is considered to be an employer based decision (Carson and Carson, 2007; Hall and Isabella, 1985; Josten and Schalk, 2006; More 1962; van Dalen and Henkens, 2016). Voluntary demotion does exist, but is rarer, and is likely to occur shortly after a (failed) promotion, whereby the promotee was not fit to handle to increased managerial responsibilities (Carson and Carson, 2007).

According to Carson and Carson (2007) there are three reasons for an employer to use demotion: poor employee performance, organizational retaliation, and economic exigency. First, when an employee is performing poorly compared to his or her colleagues or when his or her performance dropped over time, demotion could be a valid management action.

Second, demotion can be used as a disciplinary action for either violations of unwritten company norms or as a retaliatory response to undesired actions against the firm. When demotion is used in this way, it is independent of direct job performance of this specific employee, but is rather used as a punishment. The third reason why an employer could make the decision to use demotion is because of economic reasons. When organizations are facing environmental pressures, and need to downsize, but simultaneously wish to retain good performers, employees may be given the option to be redeployed, with the only other choice being termination.

It is likely that the several reasons for demotion have different impacts on the job motivation of the employees. Carson and Carson (2007), however, argue that the impact of demotion on job motivation of individuals is more negative than positive, as it can be considered to be a negative life event. First, irrespective of whether a demotion results in an immediate pay cut, a freezing of pay, or even a supplemental bonus or increase, demotees suffer a significant, long-term financial impact. Several empirical studies show that differences in earnings significantly increase between those promoted and those plateaued or demoted. Lima and Pereira (2001) finds that after five career-years, the promotee earns 20% more on average than the unpromoted worker. After 10 years, this figure rises to 55%. At the end of the fifteenth year, the promoted worker earns almost twice (93% more) the unpromoted worker's wage. West et al. (1990) furthermore find that managers and professionals who experienced a downward status shift in the past two years, experienced fewer opportunities for growth at work after the demotion than other groups of workers. Once passed over or, more problematically, once demoted, employees have little chance of rejoining the race for advancement (Carson and Carson, 2007).

Second, demotion can lead to underemployment of the employee. Underemployment is typically defined as working in positions that pay less than previous jobs, are at lower levels in the hierarchy, and for which individuals are *overqualified* in terms of competence and experience (Feldman, 1996). Underemployment may result in skill atrophy because of a reduced opportunity to exercise competencies (De Grip and Van Loo, 2002).

Third, demotion may directly demotivate workers (Groot, 1997), leading to reduced morale and job dissatisfaction. After all, when a person is demoted, this generally is the result of a negative evaluation of him or his job by his superiors. Such an implicit or explicit negative evaluation tends to increase the individual's feelings of anxiety about his job and may reduce self-confidence. The person may, as a consequence, show increasing negativism, bitterness, resistance to direction within the firm, and may go so far as to express a defeatist attitude with respect to his total life goals (More, 1962). Additionally, forms of loss of employment, such as demotions, have been reported to catapult victims into predictable stages of grief, including denial and anger. Sprague (1984) extends this argument by suggesting demotees pass through anger and outrage, and then slip into despair and depression, which results in lowered self-esteem and apathy.

Although demotion might seem like a smart move from the point of view of the employer, it might be that the negative consequences overshadow the alleged increased productivity caused by the demotion in the short run. The key question in the end is how the employees experience demotion, and how they react to it. The perception of the employee regarding the demotion, if positive, can mitigate the negative consequences demotion might have, like tension between staff and management and loss in loyalty to the firm.

Heterogeneity among Employees

It is not likely that every employee reacts the same way to a demotion. People differ in their personal characteristics and therefore, have different ways to deal with (negative) life events. The locus of control of an individual, can for example explain if a person feels if he or she is responsible for his own actions (Rotter, 1966). When someone feels that he is in control of his own life, it might affect his perceptions and attitudes regarding demotion. The same goes for the risk aversion of an employee. When an employee is scared to lose, for example, his job, he might be more inclined to be open towards the idea of demotion. Another example could be that a person might be less open to the idea of demotion if he has stronger negative reciprocal inclinations. If the employee feels that demotion is an unfair move from the employer, he might be triggered to behave negatively as well, and start to retaliate against the employer. The first way to do this might be that they do not accept demotion.

Since people differ regarding these different personal characteristics, it is likely that people respond to a demotion in different ways. This thesis researches the different responses people have regarding a proposed demotion, when simultaneously taking the personal characteristics into account. By directly empirically analyzing employee perceptions regarding demotion, and if these perceptions lead to openness to the idea of demotion, this thesis contributes to the existing economic, organization, and human resource management studies on demotion which did not take actual employee perceptions and attitudes into consideration. Moreover, it contributes to the existing literature by providing insights in whether the general support for demotion among employees depends on the personal characteristics of employees.

Data & Findings

I use unique employee survey data retrieved from the ROA health care 2016 survey and matched administrative data provided by the pension fund of the health care sector (PGGM). This data set comprises cross-sectional information on the labor market position of Dutch employees employed in health care or social services. I use this data to examine the relationships between openness to demotion, attitudes towards demotion, and the three personal characteristics (risk aversion, locus of control and negative reciprocity).

I find strong evidence that positive attitudes towards several aspects of demotion have a positive impact on the degree to which an employee is open to the idea of getting a demotion. The more an employee is able to see positive consequences of a demotion, the more openness to demotion increases as well. Negative reciprocity and openness to demotion are strongly negatively related, which means that the more negative reciprocal an employee is, the less open he or she is towards the idea of a demotion.

Additionally, I conducted moderation analyses the relationship between openness to demotion and the personal characteristics locus of control and risk aversion. The results of these analyses showed to be insignificant, and therefore, in this study, it cannot be proven that risk aversion or locus of control have an influence on the extent to which a person is open towards a demotion. However, when conducting a regression analysis checking for non-linear effects using dummies of risk aversion, the results showed a significant negative relation between risk aversion and openness to demotion. This means that *very* risk averse employees are less open towards the idea of a demotion.

Another analysis showed that the coefficient for negative reciprocity and risk aversion is particularly driven by the attitudes employees have regarding demotion. The attitudes

indicator consists of two different sets of items. Negative attitudes that are reverse coded and positive attitudes. The negative significant relationship between the overall indicator and negative reciprocity seems to be present only for the negatively phrased items. For risk aversion, it is the other way around: the significant relationship between the overall indicator and risk aversion is only present for the positively phrased statements.

Furthermore, I performed a moderation analysis on whether the feeling that demotion is a sign of personal failure is important in on the relationship between the personality traits and the openness towards demotion. When a person feels that demotion is a personal failure, he or she is less inclined to be open towards a demotion. However, this does not depend on the personal characteristics analyzed in this thesis.¹

Outline

This thesis is organized as followed: Section II discusses the extant literature on the relations between the salary system, demotion and the implicit contract, and the three characteristics; risk aversion, locus of control and negative reciprocity. It also outlines the hypotheses. Section III describes the data and the research methodology. Section IV discusses the main results of the empirical analyses. The last section presents the conclusions and discusses the limitations of the analysis as well as suggestions for further research.

¹ Additionally to what is described in the text, I checked if there is a moderation effect of the personality traits on the relationship between attitudes and the openness towards demotion. I ran the regression, but the results turned out to be insignificant. I therefore chose to not include it in the main text

II. THEORETICAL BACKGROUND & HYPOTHESES

When demotion is assigned, it is often accompanied with a cut in pay (e.g. Carson and Carson, 2007; More, 1962; van Dalen and Henkens, 2015). As mentioned in the previous section, employers choose to demote certain employees because of three reasons; poor employee performance, retaliation, or for economic reasons (Carson and Carson, 2007). When a firm wants to cut back on some costs, it might seem like an easy option to reduce the wages of the workforce. However, this is not in line with the expectations the employees have in the current salary system in the Netherlands and most other western countries. This is because in the Netherlands, and in many other countries, wages tend to rise with seniority. A worker frequently enters the firm at a low wage level and through a sequence of promotions and raises attains a higher wage. In most organizations, senior workers receive higher wages than their juniors. Additionally, more senior workers often also obtain larger nonwage compensation, like pension rights, vacation time, and other perks (Hutchens, 1989). When one considers the current salary system in isolation, it is clear why employers consider introducing demotion in their organization, in particular among their older employees.

However, it is important to ask oneself the question why these upward sloping earning profiles are in place and to what extent it is a good idea to break this system by introducing demotion. At the basis of the current salary system lays the notion that employees primarily care about the present value of their wages over their lifetime, whereas firms care about the present value of the employee's productivity over his or her lifetime in relation to the wage costs. In case when firms cannot observe individual productivity to assess whether wages are justified, situations may arise in which employees shirk by providing a minimal effort, while still receiving a good wage. To stimulate productivity, it is therefore important for employers

to give incentives to the employees to maintain and increase their effort provision. Upward sloping earning profiles are considered to be a useful policy instrument which can give such an incentive. Wage profiles which pay workers less when they are young and more when they are old may induce a worker to perform at a higher level of effort (Lazear, 1979). By deferring payment, employers and employees enter *implicit contracts* whereby workers are paid a wage less than the value of marginal product at the beginning of their career and greater than marginal product at the end. Such contracts discourage shirking in situations where it is difficult for the employer to monitor the effort of the employee. An employee who shirks or steals runs the risk of being caught and fired before obtaining the wage premium that comes at the end of the contract and is implicitly promised to him / her. Because the gains in terms of a higher lifetime productivity are divided by the employer and the employee, the employee profits from the upward sloping earning profiles as well, and will earn a higher wage during their working life than they would have without the upward sloping earning profiles (Hutchens, 1989).

This implies that the higher labor costs of older workers are not by definition undeserved. The concerns of employers about sustaining the employment of older workers combined with wage systems that are primarily based on seniority may simply reflect time inconsistent behavior from their side.

Demotion and the Implicit Contract

Why demotion might be a good idea

In a situation where earnings grow with seniority, but the productivity does not grow in the same rate, a wage-productivity gap appears. This is the case when a seniority-based payment scheme is being used. When workers get paid less when young and more when old, in the end the payment exceeds the productivity of the worker. A wage-productivity gap is therefore inevitable, and demotion might seem as a reasonable policy instrument to reduce this gap in the short run. Demotions may help to improve the financial situation of firms as it reduces the wage costs.

Furthermore, according to rank-order tournament theory an increase in the prize spread (e.g., the difference between post- and predemotion wages) may induce a higher performance (Lazear and Rosen, 1981; Rosen, 1986). The basic idea behind the tournament theory is that firms induce effort from employees by effectively pooling some portion of wages from all the employees at one rank into the wages at the next highest rank, giving each the opportunity to win promotion to that rank. As with gladiators of the past or today's professional tennis players, tournament theory suggests that participants are best motivated to perform when prizes (i.e., surviving for the gladiator, advancing for the tennis player, or being promoted for the office employee) are not contingent on absolute output but instead are a function of winners and losers. As a result, small differences in performance can result in large differences in payouts (Becker & Huselid, 1992; Eriksson, 1999; Rosen, 1986). If the spread of a tournament is too small, employees are not incited to compete and work harder to gain a promotion, or to avoid a demotion, so that the total productive output of the tournament drops (Connelly, Tihanyi, Crook and Gangloff, 2014). In line with this insight,

demotion could in principle trigger higher performance in the short run by offering negative prizes, since the spread is larger (van Dalen and Henkens, 2015).

Why demotion might not be a good idea

However, in the long run demotion might have more negative than positive consequences for the employer, in particular when productivity of older workers remains constant. Employees are likely to perceive their labor contract as an implicit contract and will therefore have formed perceptions about what they owe to their employers and what their employers owe to them (Robinson and Rousseau, 1994). In the case of demotion in a company where an upward earning profile is common, the employees receive the signal that their implicit contracts - promises of upward wage growth either by the principle of seniority and/or by a series of promotions, in this case - are not honored. The employer may be suspected to show time inconsistent behavior by demoting older employees: by not paying out the wage which was withheld when workers were young. Employees may view the demotion as a breach of contract, because demotion was never part of the incentive structure when they entered the contract. They expected an upward salary slope, and the demotion is not living up to that promise and they, therefore, lost income.

When the trust of the employees is broken, it may trigger negatively reciprocal actions (Montizaan, et al. 2015). Top management tends to lose bargaining power, in part because it loses the loyalty of middle management and the rest of the employees. This can result in shirking, decreased individual productivity, loss of loyalty to the company, an increase in turnover, illness and absenteeism, and an increase in the abuse of privileges (More, 1962).

Even if the productivity of a certain employee has indeed decreased over time, which can be considered to be a breach of the implicit contract from the employees' side, demotion may still backfire on the organization in the long run (van Dalen and Henkens, 2015). Although demotion may be justified in this case and in principle should not harm the long-term labor relationships in the implicit contract framework, it may still have strong negative demotivating effects. Tournament theory predicts that an incentive structure like demotion, which makes not only the winners but also the losers in a tournament visible, might lead to less effort from everybody, especially when a loss of status is involved (Ederer and Patacconi, 2010).

In summary; when grasping the effects of demotion, many things must be considered. First, demotion can save the employer money, which can be used for other goals. Second, demotion may generate productive behavior in the short run such as an increased willingness to participate in training (van Dalen and Henkens, 2015). The demotion can act as a spur to work hard to recapture former status, resulting in increased effort and output (More, 1962). However, in an environment in which demotion is rare or even considered a taboo, one can expect that demotion can possibly cause non-productive behavior, such as showing less loyalty to management, becoming less motivated to work and sabotaging organizational procedures (Ambrose et al., 2002; More, 1962).

Employee Perspectives and Attitudes regarding Demotion

Demotion can have negative consequences for the demotee personally. First, demotion is normally accompanied with a significant loss in salary over the working life, even when wages are not immediately decreased. As already mentioned, when an employee does not get promoted, or worse demoted, after 15 years his earnings are (93%) lower than someone who did go through a series of promotions (Lima and Pereira, 2001).

Second, demotion could cause a loss of status or a feeling of personal failure. Since the 'losers' become visible with a demotion, employees could get a feeling of reduced self-esteem. While the person may continue to work, and work well at his job, a withdrawal process from social contacts in the work situation can result from a demotion. The reason for this could be that the individual feels he must maintain self-esteem by withdrawing from any contact in which he might be subject to further negative interpersonal evaluations (More, 1962). Moreover, the demotion might cause feelings of anxiety about the job, to lead the demotee to question his own self-worth. The person may, as a consequence, show increasing negativism, bitterness, resistance to direction within the firm, and may go so far as to express a defeatist attitude with respect to his total life goals (More, 1962).

Third, when the trust of the employees is broken due to the use of demotion, it may trigger reciprocal actions from the employees. They might feel that they do not need to honor their side of the implicit contract anymore, since there is no guarantee that they will not be demoted again. This is also a reason for other employees to behave negatively regarding the firm. They see that the implicit contract is of little value to the employee and will be more inclined to shirking (More, 1962).

On the other hand, demotion could have positive consequences for the demotee as well. The demotion could lead to a better balance between skills and responsibilities, which could be the case when an employee was promoted to a position that did not match his or her capabilities and is now demoted back into the old position. It could provide a perspective for a longer and more sustainable work-life, it could increase job satisfaction in the long run and it could decrease the pressure to achieve (e.g. Carson and Carson, 2007; Hall and Isabella, 1985; van Dijk et al., 1990). If employees share these positive perceptions regarding demotion, they could be open for the idea of a demotion. Openness towards demotion can help the demotee to be confident and happy in his or her new role and can continue to add value to the company.

Hypothesis 1 (H1): *Employees with a positive attitude towards demotion are more likely to be open towards a demotion than employees who have a negative attitude towards demotion.*

Heterogeneity among Employees and their Attitudes towards Demotion

When a demotion is assigned to an employee who has a positive attitude towards a downward move, it may be beneficial to the firm, as well as the employee. When the employees perceive the demotion as fair, there is a lower chance that the demotion backfires onto the organization in a negative way (van Dale et al., 2015). It is therefore important to analyze which employees respond positively to the possibility of a demotion and which employees have negative perceptions regarding a downward move. Moreover, to what extent is the impact heterogeneous with personality traits such as risk aversion, locus of control or negative reciprocity?

When demotion is assigned, it might cause feelings of anxiety which can lead the employee to question his own self-worth. Some people may, as a consequence, show increasing negativism, bitterness, resistance to direction within the firm, and may go so far as to express a defeatist attitude with respect to his total life goals. However, when the employee feels in control regarding his own life, he might respond differently. His locus of control might cause him to believe he is responsible for his own life and for the consequences of his own behavior. These people might see the demotion as a possible opportunity for personal growth or a better work-life balance.

Furthermore, demotion goes hand in hand with a significant decrease in financial income and social status. People who are risk averse might see this as an unacceptable consequence and will therefore show a negative attitude towards a possible demotion. Some employees might be frightened to lose their job, or to lose face within the organization. It can be expected that these people do not have a positive attitude towards the idea of a demotion.

Another consequence of demotion can be that the trust regarding the implicit contract is harmed. When this is the case, it may trigger reciprocal actions from the employees. Some people might feel that they do not need to honor their side of the implicit contract anymore, since there is no guarantee that they will not be demoted again, or that any other part of the implicit will be broken. It can be expected that the employees who carry these negative reciprocal feelings are not likely to be open towards a possible demotion.

It can be expected that there is a correlation between the acceptance of demotion and the attitudes and personalities of the employees. This thesis empirically researches the correlation between these three characteristics and the openness towards a possible demotion.

Risk Aversion

We can expect the choice to accept demotion to be dependent on the extent to which the demotee likes to take risks. Research shows that when facing a decision, individuals tend to be either attracted to, or repelled by alternatives that are perceived as more or less risky (Weber and Bottom, 1989; Weber and Milliman, 1997). Risk aversion refers to a sense that more risk is worse and that risk is undesirable (Allen, et al., 2005; Bell, 1995). More risk-averse individuals would be less likely to make a choice that is perceived as involving risk than would less risk-averse individuals. When confronted with demotion, an employee can choose to accept it, or to refuse the demotion and start looking for another job. Quitting a job generally involves more risk and uncertainty (MacCrimmon and Wehrung, 1985). Quitting without a concrete alternative role in hand involves obvious risks. Even if an individual quits for a specific work or nonwork alternative, there are risks involved, such as those associated with unknown job attributes, changing relationships and environments, and uncertainty regarding future satisfaction (Allen et al., 2005). Thus, making a turnover decision requires consideration of the risks involved. Because of the risks involved in quitting a job, risk-averse individuals are expected to be less likely to quit despite their intentions to do so (Allen et al., 2005) and are therefore more inclined to accept the demotion. Additionally, it can be expected that risk averse employees are more likely to accept the demotion, even when they have a negative perception regarding demotion in general. Their fear of losing the job is likely to be stronger than their negativity about a downward move.

***Hypothesis 2 (H2):** Employees who are risk averse are more likely to be open towards demotion than employees who are not risk averse.*

Locus of Control

Are people more or are they less inclined to accept a demotion when they feel they are in control of their own life? The concept of internal-external locus of control (Rotter, 1966), seeks to categorize whether individuals attribute the cause or control of events either to *themselves* (termed as internals), or to their *environment* (termed as externals). Coleman and DeLeire (2003) explain that individuals hold beliefs regarding the outcome of certain events, whether they are due to their own efforts or the result of luck, chance, fate, or the intervention of others. Consequently, individuals believing that outcomes are due to their own efforts have an internal locus of control, while on the other hand, individuals who believe that outcomes are due to luck or coincidence, have an external locus of control.

When an employee is confronted with demotion, it might be important for his or her openness towards a demotion whether the employee has an internal or external locus of control. Spector (1982) found that internals tend to take action more often than externals when being dissatisfied and are therefore more likely to quit their job in dissatisfying situations. They also tend to be more successful on the job and more satisfied, which is further associated with less turnover intentions. When an internal is offered a demotion, it is likely that the employee is not willing to accept it without any clarification. Individuals with an internal locus of control will actively try to change their situation of dissatisfaction. Therefore, they are more likely to change their situation by restructuring their actual work setting together with the employer or by turning over to a new employer. Because internals are more likely to believe that they are able to master their environment and control their outcomes, they may be more likely to believe that they will be successful in obtaining an attractive alternative (Allen et al., 2005) and, thus, less likely to accept a demotion than are externals. Conversely,

individuals with an external locus of control are more likely to stay in their jobs, even when they are not satisfied with it, as they believe they cannot change these circumstances. This could also hold in a situation of demotion. Externals may be more likely to believe that attempts at control would be futile, which would contribute to passivity and low motivation (Baumeister & Scher, 1988) The external beliefs that there is nothing he or she can do about the demotion or to improve the situation on own strength and will therefore be more willing to accept the demotion.

***Hypothesis 3a (H3a):** Employees who have an internal locus of control are less likely to accept a demotion than employees who have an external locus of control.*

However, a characteristic of the internal is that he or she takes responsibility for his own actions (Rotter, 1966). When the internal oriented employee feels that the demotion is his or her own fault and he considers the demotion as a personal failure, he might be more inclined to accept the demotion, because he knows he is responsible for the consequences of his poor performance.

***Hypothesis 3b (H3b):** Employees who have an internal locus of control are more likely to accept a demotion than employees who have an external locus of control, when the employee feels the demotion is a personal failure.*

Negative Reciprocity

Reciprocity is a key driver of human motivation (Gintis et al., (2008). A negative reciprocity orientation is the tendency for an individual to return negative treatment for negative treatment (Cropanzano and Mitchell, 2005). The principle of retaliation emphasizes the biblical injunction of “a life for a life, eye for eye, tooth for tooth, bruise for bruise” (Exodus 21:23–25). Gouldner (1960) captured this principle in his negative norm of reciprocity. Reciprocity encompasses quid pro quo behaviors, meaning that something given generates an obligation to return an equivalent gesture. Most research focuses on positive reciprocity, which promotes stability in relationships through considerate, valued, and balanced exchanges. Favorable treatment generates favorable treatment. However, Gouldner (1960) also noted that individuals may endorse a negative norm of reciprocity, under which unfavorable treatment promotes “not the return of benefits but the return of injuries” (p. 172). Individuals may be guided by negative reciprocity beliefs whereby they believe that when someone mistreats them, it is acceptable to retaliate in return (Cropanzano and Mitchell, 2005). Yet, Gouldner (1960) suggested that not all victims seek to retaliate. Some may feel it is acceptable to “turn the other cheek.” Thus, individuals vary in their beliefs about the appropriateness of negative reciprocity. Individuals who endorse negative reciprocity believe retribution is the correct and proper response to unfavorable treatment (Eisenberger et al., 2004). Those who hold strong negative reciprocity beliefs are more likely to seek retaliation than avoidance (McLean Parks, 1998).

In case of a demotion, some employees might perceive the downward move as unfair. When employees feel that they are treated unfairly, positive attitudes and behavior suffer (Tepper, 2000; Tepper et al., 1998). Negatively reciprocal workers retaliate against their

employers for unfair treatment, for example, by reducing effort (Fehr and Gächter, 2000). Related studies in psychology have also documented that workers react to wage cuts by harming their employer (see, e.g., Greenberg, 1990). It can be proposed that negatively reciprocal workers are not inclined to accept a demotion, since their decisions are based on the impulse to strike back, instead of accepting their new position and therefore quicker engage in deviant behavior in response to poor exchange relationships with their employer (Blau, 1964; Cropanzano and Mitchell, 2005).

Hypothesis 4 (H4): *Employees who are negatively reciprocal are less likely to be open towards a demotion than employees who are not negatively reciprocal.*

Theoretical Framework in an Overview

Figure 3 and figure 4 present a summary of the theoretical models that form the basis of this thesis. The main variable of interest in the figures – openness towards demotion – is in boldface, the relations to be estimated are represented by the hypothesis number and the moderating variables are presented in the dotted box. First, in figure 2; positive attitudes regarding demotion are expected to have a positive relationship with the openness towards demotion (H1).

Figure 2 Model 1

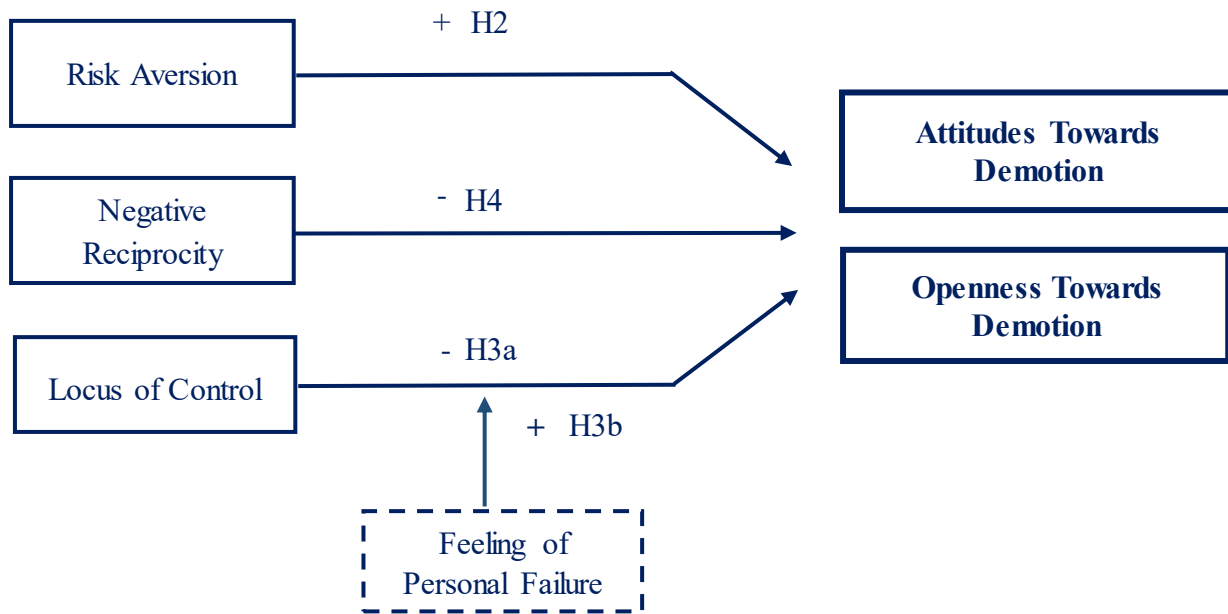


Second, the personal characteristics of the demotee have an influence on this relationship.

Figure 3 shows the model that represent hypotheses 2 to 4.

A risk averse employee is more inclined to accept a demotion and has therefore a positive effect on the relationship between perceptions and acceptance of demotion (H2). Further, an employee with an internal locus of control is not likely to accept a demotion, and this has a negative effect on the relationship between perceptions and openness towards demotion (H3a), except when the internally focused employee feels the demotion is a personal failure (H3b). Last, if an employee is negatively reciprocal, he or she is less likely to accept a demotion, because this employee has the urge to strike back and hold a grudge against the company when he feels he is treated unfairly (H4). Furthermore, hypotheses 2 to 4 are checked with attitudes towards demotion as the dependent variable as well, since openness towards demotion and attitudes towards demotion might have some overlap and measure the same thing.

Figure 3 Model 2



III. DATA

Description

For the empirical analyses, I used data retrieved from the ROA health care 2016 survey and matched administrative data provided by the pension fund of the health care sector (PGGM). This data set comprises cross-sectional information on the labor market position of Dutch employees employed in health care or social services. I use this data to examine the relationships between employee attitudes regarding demotion, the openness towards demotion, as well as how these relationships are moderated by the personal characteristics locus of control, negative reciprocity and risk aversion.

The questionnaire was set up to monitor the work situation in health care and social services. The general purpose of the study was to research factors that could facilitate longer working careers for the individual. A small part of the questionnaire was specifically aimed at the employee attitudes towards demotion. The survey further includes detailed information on personality traits and work related behavior. The survey was sent in December 2016 to 8000 employees in the health care sector via email, and around 1200 employees replied. The final estimation sample consists of 1123 observations.

The administrative data contain information on the number of working hours and the annual wage as well as employment status, tenure, age, and gender of the participants.

Measurement

Main Variables

The main interest lies in investigating how employee's openness towards demotion is related to their attitudes regarding demotion and the personal characteristics internal locus of control, risk aversion and negative reciprocity.

The main dependent variable is openness to demotion. The question that was asked to measure openness to demotion was: *To what extent are you open towards a demotion?* The answers were collected using a 5-point Likert scale, ranging from *definitely yes (1)* to *definitely not (5)* (see appendix A1). This scale was newly fabricated for this survey. To construct the variable 'Openness to Demotion', I recoded the scores for this question. A higher score now means that a person is more open towards demotion. Additionally, I created three dummy variables to measure openness to demotion. Respondents that scored less than 3 on the 5-point Likert scale are marked 'not open', when the score was exactly 3, it was marked 'neutral', and when the score was higher than 3, it was marked 'very open'. These dummies were used to check for non-linear effects.

The first independent variable, the degree to which a respondent has positive attitudes or negative attitudes regarding demotion, is measured through 9 statements that the respondent had to rate on a 5-point Likert scale, ranging from *strongly disagree (1)* to *strongly agree (5)*. A few examples of the statement are: *Demotion leads to a loss in status; demotion is a sign of personal failure; demotion increases job satisfaction in the long run, and; demotion decreases the pressure to perform.* To create the variable 'Attitudes towards Demotion', the scores of the negatively formulated statements were reversed. The average of

the scores was then calculated. A higher score means a more positive attitude towards demotion. Additionally, two extra indexes were created; one for positive attitudes and one for negative attitudes.

The second independent variable I constructed is locus of control. For this survey the Rotter Internal-External Locus of Control Scale was used. The Rotter Internal-External Locus of Control Scale, collected in 1979 using interviews, is a four-item abbreviated version of a 23-item forced choice questionnaire adapted from the 60-item Rotter scale developed by Rotter (1966). The scale is designed to measure the extent to which individuals believe they have control over their lives, i.e., self-motivation and self-determination, (internal control) as opposed to the extent that the environment (i.e., chance, fate, luck) controls their lives (external control), and has been commonly used in previous studies analyzing the role of noncognitive skills on labor outcomes (Heckman et al., 2006; Osborne-Groves, 2005).

Individuals are first shown four sets of statements (see appendix A4) and asked which of the two statements is closer to their own opinion. An example of the statements is: *What happens to me is my own doing.* In contrast to: *Sometimes I feel that I don't have enough control over the direction my life is taking.* The scale is scored in the internal direction: the higher the score, the more internal the individual behaves. A score of 0 = completely external locus of control, meaning that people always chose the statement which exhibits external locus of control, whereas a score of 4 = completely internal locus of control, meaning that people chose 4 times the statement exhibiting an internal locus of control.

The third independent variable I constructed is risk aversion. The risk aversion of an individual was measured by 1 statement regarding the willingness of a respondent to engage

in an activity that contains risk. The statement was: *To what extent are you willing to take risks?* This statement had to be rated on a 10-point scale ranging from *totally not willing (1)* to *extremely willing (10)*. This general risk question has been experimentally validated and shown to be a reliable measure of an individual's actual propensity to take risks. This survey question was developed and validated by Dohmen et al. (2005), who used this question in combination with a lottery experiment. The data they used are from the 2004 wave of the Socio-Economic Panel (SOEP), and was later used by various other researchers (Caliendo, Fossen and Kritikos, 2006; Dohmen et al., 2011; Jaeger et al., 2007), and shows to be a reliable measure of risk aversion. To construct the risk aversion variable, the scores for risk aversion were inverted. The higher the score, the more risk averse the person is.

The last independent variable is reciprocity. Positive reciprocity refers to behavior that is related to helpfulness and kindness, although of a conditional nature. Negative reciprocity concerns vengefulness and others' harming behavior. Reciprocity is measured by one question containing 6 statements from the Personal Norm of Reciprocity (PNR) questionnaire, developed and validated by Perugini et al. (2003), regarding positive as well as negative reciprocity. These authors performed comprehensive validation tests and assessed the predictive power of their reciprocity scale for the behavior of participants in ultimatum games in laboratory experiments conducted in the United Kingdom and Italy. This survey includes the six items that have the highest loadings on the principal components for positive and negative reciprocity and that were also included in the 2005 SOEP wave (see Dohmen et al., 2009 for the behavioral validity of these questions). These statements had to be rated on a 5-point Likert scale, ranging from *totally disagree (1)* to *totally agree (5)*. An example of the statements regarding positive reciprocity is: *If someone does me a favor. I am ready to return*

it. An example of the statements regarding negative reciprocity is: *If I suffer a serious wrong, I will take my revenge as soon as possible, no matter what the costs.*

I construct the measures of positive and negative reciprocity by taking the arithmetic average of a respondent's answers to questions regarding positive reciprocity and negative reciprocity, respectively.

Control Variables

For the empirical analyses, several control variables were used. For example: age, gender, whether they live with a partner or not and educational level.

For measuring the educational level, the following survey question is used: *What is your highest level of education completed?* Respondents had to select their level of education out of eight options. Three educational level dummy variables are constructed. The first indicates whether an individual completed a Lower Vocational Education. The second dummy indicates whether an individual completed an Intermediate Vocational Education, while the last dummy indicates whether an individual completed a Higher Professional Education or University.

Descriptive Statistics and Correlations

Table 1 presents descriptive statistics of the variables measured in 2016. Starting off with the main dependent variable, openness to demotion, the table shows that on average, a large majority of the respondents is not open to the idea of a demotion. Only a small 10% of the respondents answered positively to the question if they would be open to demotion if their employer suggested it (see appendix A2).

Attitudes towards demotion, the variable constructed with the 9 statements (positive/negative) regarding demotion, has a mean of 3.06 on a 5-point scale and a standard deviation of 0.55. More than half of the respondents stated that demotion is not a sign of personal failure (59.2%) (see Appendix A3). The mean of the statement that demotion is a sign of personal failure is 2.48 on a 5-point scale, with a small standard deviation (.96).

Regarding reciprocity; the respondents tend to be a little bit more positively reciprocal (a mean of 3.89 on a 5-point scale) than negatively reciprocal (a mean of 2.45 on a 5-point scale). Risk aversion has a mean of 6.11, which means that the majority of the people are slightly risk averse. The higher the score for risk aversion, the less risk this person is willing to take. As locus of control is ranging from 0, indicating an external locus of control, to 4, indicating an internal locus of control, the average score indicates that the estimation sample is a slightly more internal than external. Figure A5 (appendix) confirms this by showing the distribution of the locus of control variable. The standard deviation for risk aversion is 2.39, and 1.20 for locus of control, which is relatively large. This means that there are large differences between respondents regarding their risk aversion and locus of control.

Looking at the control variables, on average, the respondents are 57 years old with a standard deviation of 7.8. The youngest respondent was born in 1991 and the oldest in 1938,

however, 90% of the sample is 48 years or older (see appendix A6). For the questions I am analyzing, this relatively old sample is favorable. Older workers are more likely to be offered a demotion, since their salaries are relatively high (e.g. Lazear, 1979; More, 1962; van Dale and Henkens, 2015). This means demotion can be a serious issue for the people in this sample.

Additionally, more than 90% of the respondents is female, which could be explained that healthcare is, traditionally, an area where a lot of women are active in the labor market. Furthermore, 72% of the respondents are married or living with a partner. Regarding the education level, the majority (59%) is schooled on an intermediate level. Only a minority of 18.9% of the respondents completed a low level of education, meaning only primary- or high school at VMBO level. The final part of Table 1 shows the descriptives on the job characteristics of the estimation sample. On average, only 24.5% of the respondents have a fulltime working contract of 40 hours per week, which could be explained by the fact that the sample consists largely of women, who are more likely to work part-time than men. Workers have on average more than 23 tenure years in the organization.

Table 1 Descriptive Statistics

Variable Description	Mean	Std. Dev.	Min	Max
<i>Main Variables</i>				
Openness to Demotion	2.04	1.06	1	5
Attitudes Towards Demotion	3.06	.55	1	5
Reciprocity				
Positive	3.89	.50	1	5
Negative	2.45	.74	1	5
Risk Aversion	6.11	2.38	1	10
Locus of Control	2.07	1.20	0	4
Demotion; Personal Failure	2.48	.96	1	5
<i>Employee Characteristics</i>				
Age	57.22	7.84	21	67
Female	.91	.28	0	1
Living with Partner	.72	.45	0	1
Education				
Lower	.14	.34	0	1
Intermediate	.40	.49	0	1
Higher	.44	.50	0	1
<i>Job Characteristics</i>				
FTE (% fulltime contract)	70.83	26.03	0	120
Yearly Salary	32282.96	14336.61	0	50001
Tenure (in years)	23.10	9.37	5	35

Table 3 presents a correlation matrix of all the variables important for this thesis – openness to demotion, attitudes towards demotion, negative reciprocity, risk aversion, locus of control. As well as the control variables age, gender, living with partner, education, full-time equivalent, salary and tenure.

The correlation matrix shows that openness to demotion and positive attitudes towards demotion are significantly and positively correlated, which means that the more positive someone's attitudes are regarding demotion, the more open to demotion this person is. Negative reciprocity is negatively correlated to the openness to demotion, which means that negatively reciprocal people are less likely to be open to demotion. Negative reciprocity is also significantly and negatively correlated with positive attitudes towards demotion. This means that negatively reciprocal people tend to have less positive attitudes towards demotion. This is also the case for risk aversion. Risk averse people are less likely to have a positive attitude towards demotion. Locus of control is positively correlated with attitudes towards demotion, which means that internals are more likely to have a positive attitude towards demotion. Locus of control is significantly negatively correlated with risk aversion. This means that internals are not likely to be risk averse.

To look at the control variables: Age is significantly positively correlated with openness to demotion, this means that older workers are more open towards the idea of demotion. This could be explained by that older workers, for example, would like to reduce the physical pressure of their job. It is also visible that education level does matter for how people think about demotion. Lower educated individuals seem to have negative attitudes towards demotion, since the correlation is significantly negative. Higher educated individuals, subsequently, have significantly positive attitudes towards demotion.

Table 2 Correlation Matrix of Main Variables & Control Variables.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Opennes to Demotion	1.000													
Attitude Demotion	0.3720 0.0000***	1.000												
Negative Reciprocity	-0.1119 0.0039***	-0.1128 0.0042***	1.000											
Risk Aversion	-0.0161 0.6805	-0.0862 0.0294**	-0.0298 0.4516	1.000										
Locus of Control	0.0124 0.7538	0.1049 0.0084***	-0.0672 0.0896*	-0.1297 0.0011***	1.000									
Age	0.1287 0.0003***	-0.0131 0.7192	-0.0207 0.5941	0.1139 0.0035***	-0.0615 0.1181	1.000								
Gender	0.0142 0.6905	0.0046 0.9003	-0.0821 0.0346**	0.0874 0.0250**	-0.0407 0.3018	-0.0339 0.2570	1.000							
Living with Partner	0.0101 0.7760	0.0554 0.1277	-0.0177 0.6498	0.0393 0.3145	0.0482 0.2205	0.0834 0.0053***	-0.0301 0.3144	1.000						
Lower Ed.	-0.0149 0.6749	-0.0974 0.0073***	0.1350 0.0005***	0.0650 0.0955	-0.0913 0.0202**	0.0530 0.0764*	0.0274 0.3602	0.0103 0.7304	1.000					
Intermediate Ed.	0.0044 0.9026	-0.0544 0.1343	-0.0403 0.3007	0.0837 0.0318**	-0.0749 0.0567*	0.0155 0.6048	0.0685 0.0221**	0.0570 0.0561	-0.3188 0.0000***	1.000				
Higher Ed.	0.0144 0.6859	0.1484 0.0000***	-0.0655 0.0920*	-0.1832 0.0000***	0.1496 0.0001***	-0.0533 0.0751*	-0.0710 0.0177**	-0.0549 0.0657*	-0.3545 0.0000***	-0.7165 0.0000***	1.000			
FTE	-0.0330 0.3545	0.0337 0.3550	0.0215 0.5800	-0.0235 0.5471	0.1296 0.0010***	-0.0103 0.7310	-0.2924 0.0000***	-0.1342 0.0000***	-0.1110 0.0002***	0.0756 0.0115**	-0.0077 0.7969	1.000		
Salary	0.0126 0.7237	0.0996 0.0061***	-0.0222 0.5678	-0.0150 0.7013	0.0530 0.1779	0.0250 0.4040	-0.1312 0.0000***	-0.0473 0.1142	-0.0565 0.0590*	0.0534 0.0743*	-0.0251 0.4013	0.5930 0.0000***	1.000	
Tenure	0.0597 0.0940*	0.1270 0.0005***	0.0043 0.9123	0.0280 0.4737	0.0667 0.0902*	0.3790 0.0000***	-0.0753 0.0118**	0.0827 0.0057*	-0.1079 0.0003***	0.1082 0.0003***	-0.0201 0.5015	0.2758 0.0000***	0.2155 0.0000***	1.000

IV. ESTIMATION RESULTS

Attitudes towards Demotion as a Predictor for Openness to Demotion

Table 3 shows the relationships between positive attitudes towards demotion and openness towards demotion. The result that positive attitudes towards demotion result in being more open to the idea of demotion, is in line with the expectation that was set with hypothesis 1: *Employees with a positive attitude towards demotion are more likely to be open towards a demotion than employees who have a negative attitude towards demotion.* Column (1) of the table shows the results of ordinary least squares (OLS) regressions in which I relate openness to demotion to attitudes towards demotion. The coefficient is positive and significant on the 0.01 level. More precisely, an increase of one on the attitudes scale, increases openness to demotion by 0.709, which makes it clear that positive attitudes have a substantial positive influence on openness to demotion.

Column (2) shows the results of the OLS regression when several control variables are added, more specifically the personal characteristics. Here the impact of positive attitudes on openness to demotion remains strongly positive compared to the first OLS results. Furthermore, the age proves to be highly positively significant as well. The older an employee is, the more open towards the idea of demotion he or she is. This could be explained by the idea that older workers would like to have less physical and psychological pressure at work and would want to take it slow (e.g. Lazear, 1979; More, 1962; van Dalen and Henkens, 2015). The results of the regression presented in column (3), where even more basic control variables that concern job characteristics are added (including annual wage income in logs), show a small increase in the size of the coefficient of the attitudes variable, and therefore it remains highly statistically significant. However, none of the added control variables prove to have any significant influence.

Column (4) shows the result of the regression when attitudes towards demotion are split in two separate variables; Positive Attitude towards demotion and Negative Attitudes towards demotion. I separate the positively formulated questions from the scale from the questions that were negatively formulated. This because it could be the case that one set of the sub-items of the scale is driving the results. It is important to recognize that the negative formulated questions lead to similar results, as well as the positively formulated questions. In this case, the analyses of these two separate variables result in the same conclusion as can be stated from column (1) to (3): the more positive the attitude of the employee is regarding demotion - which means that he or she acknowledges the positive consequences a demotion could have - the more open towards a demotion this person is. The coefficient of the Positive Attitude variable is positively significant on the 0.01 level. This also works the other way around; the coefficient of Negative Attitude is also (negatively) significant on the 0.01 level. This means that if an employee holds a very negative attitude towards demotion, and mainly sees the negative sides of the downward move, he or she is not very likely to be open towards a demotion.

Table 3 thus shows a strong correlation between the variables openness to demotion and attitudes towards demotion. It can therefore be concluded that hypothesis 1 is confirmed: positive attitudes towards demotion indeed have a positive effect on the openness to demotion. With an R-squared of 0.163, around 16% of the openness to demotion can be explained by this analysis.

Table 3 Attitude on Openness to Demotion

	(1)	(2)	(3)	(4)
Openness towards Demotion				
Attitudes towards Demotion (General)	0.709*** (0.064)	0.718*** (0.065)	0.727*** (0.065)	
Negative Att. Towards Demotion				-0.276*** (0.055)
Positive Att. towards Demotion				0.448*** (0.057)
Age		0.021*** (0.005)	0.023*** (0.005)	0.023*** (0.005)
Gender		0.068 (0.123)	0.013 (0.129)	0.008 (0.129)
Living with Partner		-0.001 (0.080)	-0.018 (0.082)	-0.019 (0.082)
Lower Ed. (intermediate level of education is ref)		-0.026 (0.096)	-0.064 (0.098)	-0.072 (0.099)
Higher Ed.		-0.065 (0.087)	-0.048 (0.088)	-0.050 (0.088)
FTE			-0.002 (0.002)	-0.002 (0.002)
Salary			-0.006 (0.034)	-0.007 (0.034)
Tenure			-0.004 (0.005)	-0.004 (0.005)
Constant	-0.135 (0.200)	-1.396*** (0.371)	-1.180** (0.466)	0.507 (0.498)
Observations	757	757	757	757
R-squared	0.138	0.159	0.163	0.164

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Risk Aversion, Locus of Control and Negative Reciprocity as Predictors for Openness to Demotion

Table 4 shows the results of the analyses of the questions whether risk aversion, locus of control and negative reciprocity are associated with openness to demotion. The sample size of these analysis differs from the ones in Table 3, because I only included respondents who filled in all the questions regarding the personal characteristics (risk aversion, locus of control and reciprocity).

Hypothesis 2 predicts that employees who are risk averse are *more* likely to be open to demotion than employees who are not risk averse, because risk averse employees would fear losing their jobs more than they would fear a demotion. Column (1) of the table shows the results of OLS regression testing for this hypothesis. This column shows that there is no significant relationship between risk aversion and openness to demotion. To check for non-linear effects, I created a dummy variable for the most risk averse employees (a score higher than 7 on a ten-point scale). This analysis showed that *very* risk averse employees were significantly (on a 0.5 level) less likely to be open towards a demotion (See Table A7). This is in contradiction to what hypothesis 2 predicts, it seems that risk averse people are *less* likely to be open towards demotion than employees who are not risk averse. A possible explanation for this can be that risk averse people fear losing income and/or losing face within the company more than they fear losing their job. It must be added the questions in the survey were hypothetical and no context was taken into consideration. In conclusion; hypothesis 2 cannot be confirmed.

According to hypothesis 3a it can be expected that employees who have an internal locus of control are less likely to be open to demotion than employees who have an external locus of control. Because internals are more likely to believe that they are able to master their

environment and control their outcomes, they may be more likely to believe that they will be successful in obtaining an attractive alternative (Allen et al., 2005) and, thus, less likely to accept a demotion than are externals. Column (2) of Table 4 shows the results of this OLS regression. This column shows that I find no significant relationship between locus of control and openness to demotion.

To conclude, there is not enough evidence to support hypothesis 3a: internals are not less likely to be open towards demotion than externals, according to this sample.

To test hypothesis 4, I looked at the variables negative and positive reciprocity. The hypothesis states that negative reciprocal employees are *less* likely to be open to demotion, since their decisions are based on the impulse to strike back, instead of accepting their new position and therefore quicker engage in deviant behavior in response to poor exchange relationships with their employer (Blau, 1964; Cropanzano and Mitchell, 2005). Column (3) of Table 4 analyses the relationship between negative reciprocity and the openness to demotion, simultaneously with the relationship between positive reciprocity and openness to demotion. This column shows that there is a highly significant negative relationship between negative reciprocity and openness to demotion. The relationship is significant on the 0.01 level. The coefficient of -0.174 means when an employee becomes one unit more negatively reciprocal, the openness to demotion decreases with 0.174 on a scale from 1 to 5. This effect is particularly large, compared to the standard deviation of openness to demotion of 1.06 (see Table 1). This analyses gives me enough evidence to support hypothesis 4: Employees who are negatively reciprocal are less likely to be open towards a demotion than employees who are not negatively reciprocal

Column (4) of Table 4 shows the OLS regression when all the three personal characteristics are analyzed together and the results stay more or less the same.

Table 4 Personal Characteristics on Openness to Demotion

	(1)	(2)	(3)	(4)
Openness towards Demotion				
Risk Aversion	-0.013 (0.018)			-0.015 (0.018)
Locus of Control		0.021 (0.036)		0.010 (0.036)
Neg. Reciprocity			-0.174*** (0.058)	-0.175*** (0.058)
Pos. Reciprocity			-0.070 (0.086)	-0.068 (0.086)
Age	0.022*** (0.006)	0.022*** (0.006)	0.021*** (0.006)	0.021*** (0.006)
Gender	0.137 (0.150)	0.128 (0.150)	0.078 (0.150)	0.085 (0.150)
Living with Partner	0.004 (0.097)	-0.003 (0.097)	-0.007 (0.096)	-0.006 (0.097)
Lower Ed. (Intermediate level of education is ref)	-0.122 (0.120)	-0.123 (0.120)	-0.081 (0.121)	-0.076 (0.121)
Higher Ed.	0.022 (0.105)	0.029 (0.104)	0.017 (0.103)	-0.002 (0.105)
FTE	-0.004* (0.002)	-0.004* (0.002)	-0.004* (0.002)	-0.004* (0.002)
Salary	0.061 (0.043)	0.063 (0.043)	0.060 (0.042)	0.059 (0.043)
Tenure	-0.001 (0.005)	-0.001 (0.005)	0.000 (0.005)	0.000 (0.005)
Constant	0.425 (0.543)	0.326 (0.544)	1.174* (0.688)	1.205* (0.705)
Observations	613	613	613	613
R-squared	0.032	0.031	0.046	0.047

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Personal Characteristics as Predictor for Attitudes towards Demotion

To see if the personal characteristics possibly influence the attitude towards demotion, I created table 5. Column (1) shows the OLS regression with the personal characteristics; risk aversion, locus of control and positive and reciprocity in relation to the general attitude index (the higher the score, the more positive the attitude). Column (2) presents the results of the regression with these personal characteristics in relation to the positively formulated questions regarding attitude towards demotion, and column (3) shows the results with the negatively formulated questions. The results of column (1) show that the coefficients of risk aversion and negative reciprocity are negative and statistically significant, which indicates that risk averse and negative reciprocal employees are less likely to have a positive attitude towards demotion. The coefficient of risk aversion is -0.17 and is significant on the 0.1 level. In column (2) the coefficient of risk aversion is -0.26, which indicated that the more risk averse the employees are, the less they are inclined to be open towards a demotion. This column shows that the negative coefficient of risk aversion is particularly driven by positive attitudes towards demotion, since the coefficient of risk aversion in column (3) that measures the influence on negative attitudes, is insignificant.

For negative reciprocity, it is the other way around: the coefficient of negative reciprocity is particularly driven by the negative attitudes. The coefficient of negative reciprocity in column (1) is -0.070 and only significant on the 0.05 level. This means that negative reciprocal employees are slightly less open towards demotion. However, column (3) shows that there is a strong positive relationship (significant on the 0.01 level) between a negative attitude towards demotion and negative reciprocity. When an employee is negatively reciprocal, it increases the negative attitude towards demotion.

What is interesting in this table, is that some of the control variables are (strongly) significant. To start with the 'Living with a Partner' variable; this relation is significant on the 0.05 level. This means that employees who are married or live with a partner in the same house, have a more positive attitude towards demotion. Perhaps this is the case, because they are less dependent on their own income, since they can rely on the salary of their partner. Another variable that is suddenly significant is (higher) education. Higher educated people are significantly more likely to have a positive attitude towards demotion. A possible explanation for this could be that higher educated people have more insights in the consequences of a demotion, negative, but also positive. 'Salary' also proves to be highly positively significant in this analyses. Column (2) shows that employees who have higher salaries have more positive attitudes towards demotion. I expected this, since high-earners can afford to lose more than low-earners can.

The last significant variable is tenure. This variable is significant in all analyses of table 5. Positively in the first two columns, and negatively in column (3). This means that people who have a longer working life already, are more positive towards demotion than employees with a shorter career. This can be explained by the suggestion that older workers would like to take it slow at the end of their careers, and like a decrease in physical and mental pressure.

Table 5 Personal Characteristics on Attitudes towards Demotion

Attitudes towards Demotion	(1) Attitudes (general)	(2) Positive Attitude	(3) Negative Attitude
Risk Aversion	-0.017* (0.010)	-0.026** (0.012)	0.004 (0.012)
Locus of Control	0.031 (0.019)	0.025 (0.023)	-0.038 (0.024)
Neg. Reciprocity	-0.070** (0.031)	0.026 (0.038)	0.189*** (0.039)
Pos. Reciprocity	0.005 (0.046)	0.008 (0.055)	-0.001 (0.057)
Age	-0.003 (0.003)	-0.005 (0.004)	0.001 (0.004)
Gender	0.021 (0.080)	0.058 (0.097)	0.026 (0.100)
Living with Partner	0.088* (0.051)	0.142** (0.062)	-0.021 (0.064)
Lower Ed. (Intermediate level of education is ref)	-0.022 (0.064)	0.050 (0.077)	0.112 (0.080)
Higher Ed.	0.143** (0.056)	0.172** (0.067)	-0.107 (0.070)
FTE	-0.002 (0.001)	-0.003* (0.001)	0.001 (0.002)
Salary	0.056** (0.022)	0.069** (0.027)	-0.039 (0.028)
Tenure	0.008*** (0.003)	0.008** (0.003)	-0.007** (0.004)
Constant	2.701*** (0.373)	2.301*** (0.451)	2.798*** (0.466)
Observations	600	600	600
R-squared	0.078	0.064	0.081

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In Table 6, I show the regression analysis of the basic model regarding the variables openness to demotion and attitudes (general). Column (1) shows that a more positive attitude is significantly positively related to openness. However, this was already established in Table 3. In addition to the information given in Table 3, columns (3) to (5) also include the personality traits. This to perform a mediation analyses in which it can be checked how much of the correlation between attitudes and the openness to demotion is mediated by these personality traits. Column (2) analyzes risk aversion, and it shows to be insignificant in this analysis. Risk aversion does not prove to have a mediating influence on the openness to demotion. Column (3) checks locus of control, this is also insignificant. Column (4), however, shows that negative reciprocity has a negative significant mediating relationship with openness towards demotion. This indicates that when an employee is negative reciprocal, he or she is less inclined to be open towards a demotion, even when he or she has positive attitudes regarding demotion. This is an interesting result, since it shows that negative reciprocity is a very powerful personality trait, that is evident even when mitigated by positive attitudes towards demotion. Column (5) shows the results of the analysis when all personality traits are taken into account, and gives more or less the same results as the previous columns, which means that the impact of the attitude towards demotion is not driven by the whole set of personality indicators.

Table 6 Attitudes and Personal Characteristics on Openness towards Demotion

	(1)	(2)	(3)	(4)	(5)
Openness towards Demotion					
Attitudes towards Demotion (General)	0.725*** (0.071)	0.746*** (0.072)	0.751*** (0.072)	0.734*** (0.072)	0.735*** (0.073)
Risk Aversion		-0.007 (0.017)			-0.010 (0.017)
Locus of Control			-0.018 (0.033)		-0.027 (0.034)
Neg. Reciprocity				-0.110** (0.055)	-0.113** (0.055)
Pos. Reciprocity				-0.061 (0.080)	-0.065 (0.080)
Age		0.024*** (0.006)	0.023*** (0.006)	0.023*** (0.006)	0.023*** (0.006)
Gender		0.118 (0.141)	0.117 (0.140)	0.080 (0.141)	0.089 (0.141)
Living with Partner		-0.065 (0.091)	-0.062 (0.091)	-0.071 (0.090)	-0.063 (0.091)
Lower Ed. (Intermediate level of education is ref)		-0.091 (0.112)	-0.094 (0.112)	-0.065 (0.112)	-0.063 (0.113)
Higher Ed.		-0.089 (0.098)	-0.077 (0.097)	-0.091 (0.097)	-0.092 (0.099)
FTE		-0.003 (0.002)	-0.003 (0.002)	-0.003 (0.002)	-0.003 (0.002)
Salary		0.021 (0.039)	0.020 (0.039)	0.020 (0.039)	0.018 (0.040)
Tenure		-0.006 (0.005)	-0.005 (0.005)	-0.005 (0.005)	-0.005 (0.005)
Constant	-0.198 (0.221)	-1.470*** (0.537)	-1.473*** (0.533)	-0.885 (0.671)	-0.757 (0.686)
Observations	600	600	600	600	600
R-squared	0.149	0.181	0.181	0.188	0.189

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

In Table 7, I check for the possible non-linear effects between negative reciprocity, the other personality indicators and openness towards demotion on the attitudes regarding demotion. I created three dummy variables; column (1) shows the results of the regression when the people are not open to demotion (<3 on a 5-point scale), column (2) shows the results when the respondents were neutral (=3 on a 5-point scale), and column (3) shows the results when the respondents were very open to demotion (>3 on a 5-point scale). The results of this table show that the correlation between attitudes regarding demotion and openness towards demotion is, more or less, linear.

Column (1) shows that a positive attitude is negatively related with the 'not open' dummy, and that negative reciprocity is slightly positively related with the 'not open' dummy. This means that positive people are not likely to be against demotion, and that negative reciprocal people are a little more inclined to be against demotion than positive reciprocal people.

Column (2) shows that the people who have a positive attitude regarding demotion have a very high chance to be 'neutral' about demotion. It also shows that, with a coefficient of -0.067 and significant on the 0.5 level, positive reciprocity is negatively correlated with the 'neutral' dummy.

Column (3) presents the significantly positive results that a positive attitude is highly related to the 'very open' dummy. Also, the variable negative reciprocity is significantly negatively related to the 'very open' dummy, which shows that negative reciprocal employees are not likely to be open towards demotion.

These results confirm that the correlation between attitudes and openness towards demotion are more or less linear.

Table 7 Personal Characteristics on Openness to Demotion (dummies)

VARIABLES	(1) Not Open (<3)	(2) Neutral (=3)	(3) Very Open (>3)
Attitude towards Demotion	-0.270*** (0.033)	0.098*** (0.030)	0.172*** (0.022)
Risk Aversion	-0.002 (0.008)	-0.001 (0.007)	0.002 (0.005)
Locus of Control	0.013 (0.015)	-0.014 (0.014)	0.001 (0.010)
Neg. Reciprocity	0.043* (0.025)	-0.008 (0.023)	-0.035** (0.016)
Pos. Reciprocity	0.040 (0.036)	-0.067** (0.033)	0.028 (0.024)
Age	-0.009*** (0.003)	0.005* (0.003)	0.004** (0.002)
Gender	-0.016 (0.064)	0.025 (0.058)	-0.009 (0.042)
Living with Partner	0.030 (0.041)	-0.020 (0.037)	-0.009 (0.027)
Lower Ed. (Intermediate level of education is ref)	-0.046 (0.051)	0.058 (0.046)	-0.012 (0.034)
Higher Ed.	0.064 (0.044)	-0.047 (0.041)	-0.016 (0.029)
FTE	0.001 (0.001)	-0.001 (0.001)	0.000 (0.001)
Salary	-0.006 (0.018)	0.003 (0.016)	0.003 (0.012)
Tenure	0.002 (0.002)	-0.002 (0.002)	0.000 (0.002)
Constant	1.693*** (0.308)	0.024 (0.282)	-0.717*** (0.204)
Observations	600	600	600
R-squared	0.136	0.049	0.125

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Feeling of Personal Failure as a Moderating Factor

In hypothesis 3b I talk about the feeling that demotion could be a sign of personal failure. I expected this feeling to be a moderating factor for the relationship between locus of control and openness to demotion. I expected that when the internal oriented employee feels that the demotion is his or her own fault, and he considers the demotion to be a personal failure, he might be more inclined to be open to the demotion. For example, because he knows he is responsible for the consequences of his own poor performance. Table 8 describes the results of this analysis.

Column (1) shows that the feeling that demotion is a sign of personal failure is negatively significant on the 0.01 level in relation to openness to demotion. This means that, when employees feel that demotion is personal failure, they are less likely to be open towards demotion. However, I am more interested in the interaction effect between locus of control and failure. Column (2) describes the result of the analysis of the interaction term locus of control and failure has an influence on openness to demotion. The coefficient (-0.011) is not significant, and therefore I can conclude that hypothesis 3b cannot be confirmed; the feeling that demotion is a sign of personal failure does not moderate the relationship of locus of control and openness to demotion.

To check if the other personal characteristics (risk aversion & negative reciprocity) are moderated by the feeling of personal failure, I analyzed the interaction terms of these variables as well (column (3) and (4)). The interaction term of risk aversion and failure is not significant, and the interaction negative reciprocity and failure is neither significant on any level. This means that when negative reciprocal employees have the feeling that demotion is a sign of personal failure, it has no significant influence on their openness to demotion.

Table 8 The Feeling of Personal Failure on Openness to Demotion

	(1)	(2)	(3)	(4)
Openness to Demotion				
Demotion; Failure	-0.125*** (0.045)	-0.147* (0.083)	-0.261** (0.121)	0.112 (0.365)
Locus of Control		-0.011 (0.093)		
Risk Aversion			-0.071 (0.048)	
Neg. Reciprocity				-0.089 (0.154)
Pos. Reciprocity				0.028 (0.216)
Locus of Control x Failure		0.011 (0.036)		
Risk Aversion x Failure			0.022 (0.019)	
Neg. Rec. x Failure				-0.021 (0.055)
Pos. Rec. x Failure				-0.040 (0.085)
Age	0.021*** (0.006)	0.021*** (0.006)	0.021*** (0.006)	0.020*** (0.006)
Gender	0.135 (0.150)	0.134 (0.150)	0.136 (0.150)	0.085 (0.151)
Living with Partner	-0.007 (0.097)	-0.012 (0.098)	-0.005 (0.097)	-0.012 (0.097)
Lower Ed. (intermediate level of education is ref)	-0.112 (0.120)	-0.111 (0.120)	-0.100 (0.120)	-0.085 (0.121)
Higher Ed.	0.021 (0.103)	0.017 (0.104)	-0.005 (0.105)	0.006 (0.103)
FTE	-0.004* (0.002)	-0.004* (0.002)	-0.004* (0.002)	-0.004* (0.002)
Salary	0.062 (0.042)	0.063 (0.043)	0.065 (0.043)	0.060 (0.042)
Tenure	-0.001 (0.005)	-0.001 (0.005)	-0.001 (0.005)	-0.000 (0.005)
Constant	0.709 (0.550)	0.721 (0.577)	1.114* (0.620)	0.853 (1.113)
Observations	611	611	611	611
R-squared	0.042	0.043	0.046	0.054

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

V. CONCLUSIONS

Demotion is an HR-instrument that gains in popularity among managers and HR practitioners. Demotion, the lowering of an employee in rank and/or salary, could have many positive consequences for an organization; e.g. employee productivity and salary could be better matched, salary costs decrease and funds could be reallocated. Furthermore, demotion could have positive impact on the demotee as well; a lowering in physical or physiological pressure, a more sustainable career, and a better work/life balance are several examples. However, negative consequences of demotion, for the employee as well as for the employer, might overshadow the possible positive consequences. A demotion could feel like a breach of the implicit contract to the employee, and this might result in demotivated and disloyal workers. Furthermore, for employees, demotion causes a significant loss of income and might possibly cause a loss of face and status.

However, these statements, although backed up by literature, are all hypothetical. What employees *actually* think about demotion and how they would behave when confronted with a (possible) demotion, has never been researched before. This thesis fills a gap in the demotion-literature, by empirically analyzing how the demotion of workers is perceived by employees and to what extent these perceptions and attitudes are influenced by three personal characteristics: risk aversion, locus of control and negative reciprocity.

I used unique employee survey data retrieved from the ROA health care 2016 survey and matched administrative data provided by the pension fund of the health care sector (PGGM). This data set contained cross-sectional information on the labor market position of Dutch employees employed in health care or social services. I used this data to examine the relationships between

openness to demotion, attitudes towards demotion, and the three personal characteristics (risk aversion, locus of control and negative reciprocity).

I find strong evidence that positive attitudes towards several aspects of demotion have a positive impact on the degree to which an employee is open to the idea of getting a demotion. The more an employee is able to see positive consequences of a demotion, the openness to demotion increases as well. This is consistent with hypothesis 1: *Employees with a positive attitude towards demotion are more likely to be open towards a demotion than employees who have a negative attitude towards demotion.* Negative reciprocity and openness to demotion are strongly negatively related, which means that the more negative reciprocal an employee is, they are less inclined to be open towards the idea of a demotion. This is in line with my prediction in hypothesis 4: *Employees who are negatively reciprocal are less likely to be open towards a demotion than employees who are not negatively reciprocal.* The other characteristics, locus of control and risk aversion, do not prove to be of significance in this analysis and therefore hypothesis 2 and 3a were rejected. However, when checking for non-linear effects, risk aversion did prove to have a significant effect. This means that very risk averse people do have the tendency to be more reluctant towards demotion than people who are not risk averse. Another interesting factor of the analyses was that the coefficients for risk aversion and negative reciprocity were mainly driven by, respectively, the positive and negative attitudes of employees regarding demotion. Risk averse people do not often have a positive attitude, while there is no significant effect on the negative attitudes. For negative reciprocity, the opposite was true; the coefficient for negative reciprocity are driven by the negative attitudes employees have regarding demotion. Negative reciprocal employees do, therefore, often have a more negative attitude towards demotion. The feeling that demotion is a sign of personal failure proved to be significant

in the relation with openness to demotion, but could not be linked to personal characteristics and, in particular, locus of control. Therefore, hypothesis 3b could also not be confirmed.

Discussion

This thesis contributes to the very small amount of literature that has empirically analyzed the effects of demotion on employees. Although the sample consists of the responses of hypothetically formulated survey questions, it gives an insight in how the perceptions and attitudes of employees influence their opinions regarding demotion. Moreover, this thesis analyzed the influence personal characteristics have on these opinions regarding demotion and many recommendations for employers can be given.

First, I found that especially negatively reciprocal employees hold negative opinions regarding demotion. For employers who consider implementing a demotion, it might therefore be useful to investigate what kind of employees are being demoted. Negatively reciprocal workers retaliate against their employers for unfair treatment by reducing effort (Fehr and Gächter, 2000). Related studies in psychology have also documented that workers react to wage cuts by harming their employer (see, e.g., Greenberg, 1990). The link between reciprocity and individuals' subjective perception of their job situation and (downward) career moves has ramifications for every layer of organizational work settings. Management teams therefore need to be aware of these circumstances and should focus on employees' individual personality to provide solutions how to deal with dissatisfaction and to prevent them from retaliating against the employer. Moreover, I substantiate the importance of including negative reciprocity in future research, as this describes individual differences and could predict behavior in organizational settings and therefore provide insights in human thinking and organizational behavior.

Second, I found that the feeling that demotion is a sign of personal failure has a significant influence on the extent to which people are open towards a demotion. If demotion is used, organizations should therefore attempt to minimize demotee stigmatization. This could, for example, be done by relocation of the demotee. The cause and details of the demotion should remain confidential, and the downward move should be handled privately. If a demotion is not treated as a failure, the possible advantages could become more evident.

Furthermore, if the organization chooses to demote an employee, managers should ensure the action is legally defensible and is based on justifiable and fair reasons. When considering demotion, the organization should understand what the consequences of the demotion are, and seriously consider whether the demotion is likely to yield those outcomes, or if it triggers negative behavior from the employees.

Demotion is something that could become more and more important in the upcoming years, since it could be of great value in the competitive labor market. Both, the high demand for skilled employees and the dynamic changes occurring on this market, think of the changing demographics and shifting generations, make the need for organizational strategies aiming retention and well-being necessary to ensure a long-term success. Employers need to know how to handle the implicit contracts regarding salaries and job safety, to keep their staff loyal and motivated. My results underpin that not one employee is the same and different people react differently on various situations. Demotion in general is not popular under employees, but managers should be particularly careful with negatively reciprocal employees, since they can cause the most harm on to the organization by retaliating and demotivating other employees.

Limitations and Future Research

Despite the strengths of the analyses, especially the relatively large sample size, the lengthy questionnaire, and the specific questions regarding demotion, this research is not without limitations.

First, a potentially serious disadvantage of using hypothetical survey questions is that they might not predict actual behavior. Respondents do not have to take context into account and can over- or underestimate their own reactions. Furthermore, especially regarding the ‘openness to demotion’ scale in this research, the true reactions towards a proposed demotion cannot be measured. In real life, a variety of different factors are important when assessing such a career move. One question stating: ‘are you open towards a demotion?’ might be too simplistic to really capture the complexity of this situation.

Second, one can argue that personality and personal characteristics are not stable over time. Since this research focusses largely on three personal characteristics (risk aversion, locus of control and reciprocity), it might be useful for future research to check if personality has a potential malleability and that work environments or institutional arrangements are able to shape employees’ personality. Assuming that these traits might not be stable over time, it is worthwhile for future research to provide more insights how best to help employees and organizations to use demotion in a professional setting, especially taking negative reciprocity into account, since this showed the largest negative impact. After all, when personality traits are not stable, one could expect that employees who work in organizations that introduce demotion might become more negatively reciprocal.

Third, due to the fact that I only analyzed one data wave, the cross-sectional nature of the study does not allow to test for the impact of unobserved heterogeneity. It might be the case that the relations found in this study are biased by the impact of these unobserved variables.

Fourth, as I use employee survey data for the Dutch healthcare sector, the external validity may be limited. Furthermore, the estimation sample of this study is relatively old. I expect that the effects might be different for younger age cohorts, being more mobile in their career decisions. Therefore, future research should focus on younger estimation samples. To increase the generalizability of the results, it would be furthermore worthwhile to extend the analyses to other sectors as well as samples in other countries

REFERENCES

- Allen, D. G., Weeks, K. P., & Moffitt, K. R. (2005). Turnover intentions and voluntary turnover: the moderating roles of self-monitoring, locus of control, proactive personality, and risk aversion. *Journal of Applied Psychology, 90*(5), 980.
- Ambrose, M. L., Seabright, M. A., & Schminke, M. (2002). Sabotage in the workplace: The role of organizational injustice. *Organizational behavior and human decision processes, 89*(1), 947-965.
- Baumeister, R. F., & Scher, S. J. (1988). Self-defeating behavior patterns among normal individuals: Review and analysis of common self-destructive tendencies. *Psychological bulletin, 104*(1), 3.
- Becker, B. E., & Huselid, M. A. (1992). The incentive effects of tournament compensation systems. *Administrative Science Quarterly, 33*6-350.
- Bell, D. E. (1995). Risk, return, and utility. *Management science, 41*(1), 23-30.
- Blau, P. M. (1964). Social exchange theory. Retrieved September, 3, 2007.
- Caliendo, M., Fossen, F., & Kritikos, A. (2010). The impact of risk attitudes on entrepreneurial survival. *Journal of Economic Behavior & Organization, 76*(1), 45-63.
- Carson, P. P., & Carson, K. D. (2007). Demystifying demotion: A look at the psychological and economic consequences on the demotee. *Business Horizons, 50*(6), 455-466.
- Coleman, M., & DeLeire, T. (2003). An economic model of locus of control and the human capital investment decision. *Journal of Human Resources, 38*(3), 701-721.
- Connelly, B. L., Tihanyi, L., Crook, T. R., & Gangloff, K. A. (2014). Tournament theory: Thirty years of contests and competitions. *Journal of Management, 40*(1), 16-47.
- Cropanzano, R., & Mitchell, M. S. (2005). Social exchange theory: An interdisciplinary review. *Journal of management, 31*(6), 874-900.

- De Grip, A., & Van Loo, J. (2002). The economics of skills obsolescence: a review. In *The economics of skills obsolescence* (pp. 1-26). Emerald Group Publishing Limited.
- Dohmen, T., Falk, A., Huffman, D., & Sunde, U. (2009). Homo reciprocans: Survey evidence on behavioural outcomes. *The Economic Journal*, *119*(536), 592-612.
- Dohmen, T. J., Falk, A., Huffman, D., Sunde, U., Schupp, J., & Wagner, G. G. (2005). Individual risk attitudes: New evidence from a large, representative, experimentally-validated survey.
- Dohmen, T., Falk, A., Huffman, D., Sunde, U., Schupp, J., & Wagner, G. G. (2011). Individual risk attitudes: Measurement, determinants, and behavioral consequences. *Journal of the European Economic Association*, *9*(3), 522-550.
- Ederer, F., & Pataconi, A. (2010). Interpersonal comparison, status and ambition in organizations. *Journal of Economic Behavior & Organization*, *75*(2), 348-363.
- Eisenberger, R., Lynch, P., Aselage, J., & Rohdieck, S. (2004). Who takes the most revenge? Individual differences in negative reciprocity norm endorsement. *Personality and Social Psychology Bulletin*, *30*(6), 787-799.
- Eriksson, T. (1999). Executive compensation and tournament theory: Empirical tests on Danish data. *Journal of Labor Economics*, *17*(2), 262-280.
- Fehr, E., & Gächter, S. (2000). Fairness and retaliation: The economics of reciprocity. *The journal of economic perspectives*, *14*(3), 159-181.
- Feldman, D. C. (1996). The nature, antecedents and consequences of underemployment. *Journal of Management*, *22*(3), 385-407.
- Gintis, H., Henrich, J., Bowles, S., Boyd, R., & Fehr, E. (2008). Strong reciprocity and the roots of human morality. *Social Justice Research*, *21*(2), 241-253.

- Gouldner, A. W. (1960). The norm of reciprocity: A preliminary statement. *American sociological review*, 161-178.
- Greenberg, J. (1990). Employee theft as a reaction to underpayment inequity: The hidden cost of pay cuts. *Journal of applied psychology*, 75(5), 561.
- Groot, W. J. N. (1997). Demotie demotiveert. *Economisch-Statistische Berichten*, 4126.
- Hall, D. T., & Isabella, L. A. (1985). Downward movement and career development. *Organizational Dynamics*, 14(1), 5-23.
- Heckman, J. J., Stixrud, J., & Urzua, S. (2006). The effects of cognitive and noncognitive abilities on labor market outcomes and social behavior. *Journal of Labor economics*, 24(3), 411-482.
- Hedaa, L. (1978). Demotion: A Step in the Right Direction?. *Personnel Management*, 10(10), 45.
- Hutchens, R. M. (1989). Seniority, wages and productivity: A turbulent decade. *The Journal of Economic Perspectives*, 3(4), 49-64.
- Jaeger, D. A., Dohmen, T., Falk, A., Huffman, D., Sunde, U., & Bonin, H. (2010). Direct evidence on risk attitudes and migration. *The Review of Economics and Statistics*, 92(3), 684-689.
- Josten, E. J. C., & Schalk, R. (2009). Korte en middellange termijn effecten van demotie op werknemers.
- Kohl, J. P., & Stephens, D. B. (1990). Is demotion a four-letter word?. *Business Horizons*, 33(2), 74-76.
- Lazear, E. P. (1979). Why is there mandatory retirement?. *Journal of political economy*, 87(6), 1261-1284.
- Lazear, E. P. (1995), *Personnel Economics*, MIT Press, Boston, MA.
- Lazear, E. P. (1998). *Personnel economics for managers* (p. 316). New York: Wiley.

- Lazear, E. P., & Rosen, S. (1981). Rank-order tournaments as optimum labor contracts. *Journal of political Economy*, 89(5), 841-864.
- Lima, F., & Pereira, P. T. (2001). Careers and wage growth within large firms.
- MacCrimmon, K. R., & Wehrung, D. A. (1985). A portfolio of risk measures. *Theory and decision*, 19(1), 1-29.
- McLean Parks, J. (1998). The fourth arm of justice: The art and science of revenge. *Research on Negotiation in Organizations*, 6, 113–144.
- Milgrom, P. R., & Roberts, J. D. (1992). Economics, organization and management.
- Montizaan, R., De Grip, A., Cörvers, F., & Dohmen, T. (2009). Demotivating Workers: Retrenchment of pension rights and negative reciprocity.
- Montizaan, R., de Grip, A., Cörvers, F., & Dohmen, T. (2015). The impact of negatively reciprocal inclinations on worker behavior: Evidence from a retrenchment of pension rights. *Management Science*, 62(3), 668-681.
- More, D. M. (1962). Demotion. *Social Problems*, 9(3), 213-221.
- Osborne-Groves, M. (2005). How Important is Your Personality? Labor Market Returns to Personality for Women in the US and UK. *Journal of Economic Psychology*, 26, 827–841.
- Perugini, M., Gallucci, M., Presaghi, F., & Ercolani, A. P. (2003). The personal norm of reciprocity. *European Journal of Personality*, 17(4), 251-283.
- Robinson, S. L., & Rousseau, D. M. (1994). Violating the psychological contract: Not the exception but the norm. *Journal of organizational behavior*, 15(3), 245-259.
- Rosen, S. (1986). The theory of equalizing differences. *Handbook of labor economics*, 1, 641-692.

- Rotter, J. B. (1966). Generalized expectancies for internal versus external control of reinforcement. *Psychological monographs: General and applied*, 80(1), 1.
- Spector, P. E. (1982). Behavior in organizations as a function of employee's locus of control. *Psychological bulletin*, 91(3), 482.
- Sprague, R. (1984). The high cost of personal transitions. *Training and Development Journal*, 38(10), 61-64.
- Tepper, B. J. (2000). Consequences of abusive supervision. *Academy of Management Journal*, 43, 178 - 190.
- Tepper, B. J., Eisenbach, R. J., Kirby, S. L., & Potter, P. W. (1998). Test of a justice-based model of subordinates' resistance to downward influence attempts. *Group & Organization Management*, 23, 144 -160
- Van Dalen, H. P., & Henkens, K. (2016). Why demotion of older workers is a no-go area for managers. *The International Journal of Human Resource Management*, 1-27.
- Van Dijk, F. J. H., Dormolen, M. V., Kompier, M. A. J., & Meijman, T. F. (1990). Herwaardering model belasting-belastbaarheid.
- Weber, E. U., & Bottom, W. P. (1989). Axiomatic measures of perceived risk: Some tests and extensions. *Journal of Behavioral Decision Making*, 2(2), 113-131.
- Weber, E. U., & Milliman, R. A. (1997). Perceived risk attitudes: Relating risk perception to risky choice. *Management science*, 43(2), 123-144.
- West, M., Nicholson, N., & Rees, A. (1990). The outcomes of downward managerial mobility. *Journal of Organizational Behavior*, 11(2), 119-134

APPENDIX

Figure A1 Openness to Demotion Scale

For the ROA health care 2016 survey, a new scale was developed to measure the degree to which employees were open to the idea of demotion. The question was stated as follows:

Demotion means that people go back from a higher position to a lower one. It is the opposite of a promotion. Demotion could be paired with a decrease in salary and the loss of extra rewards outside of the regular salary arrangements. This is, however, not always the case.

In the event that your employer suggests demotion to you, to what extent would you be open towards this?

- Totally Open (1)
- Somewhat Open (2)
- Neutral (3)
- Somewhat not Open (4)
- Totally not Open (5)

Figure A2 Distribution Openness to Demotion

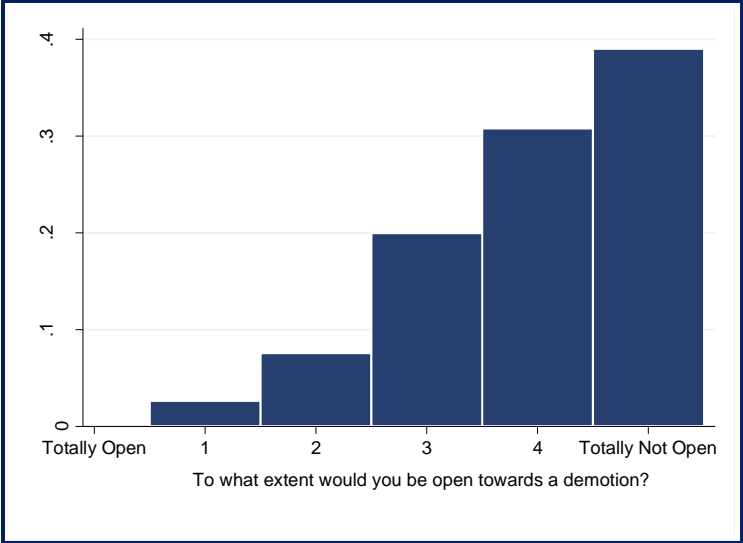


Figure A3 Distribution Personal Failure

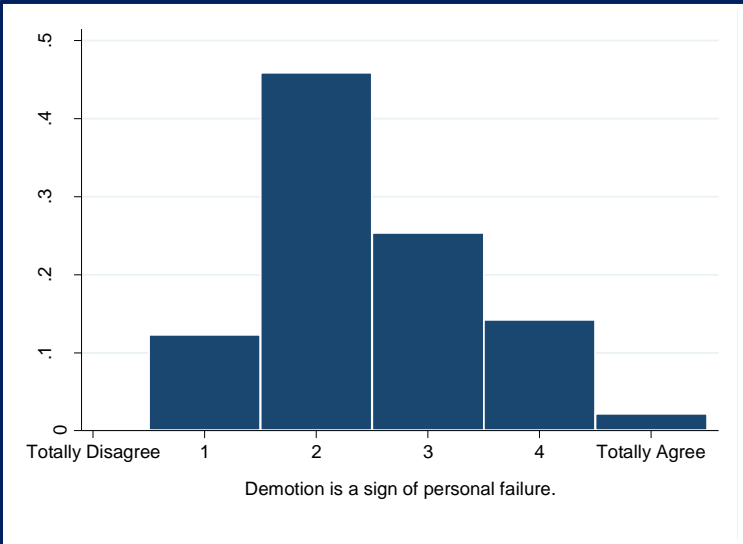


Figure A4 4-item abbreviated Rotter Scale

The Rotter Internal-External Locus of Control Scale, collected as part of the 1979 interviews, is a four-item abbreviated version of a 23-item forced choice questionnaire adapted from the 60-item Rotter scale developed by Rotter (1966). The scale is designed to measure the extent to which individuals believe they have control over their lives, i.e., self-motivation and self-determination, (internal control) as opposed to the extent that the environment (i.e., chance, fate, luck) controls their lives (external control).

Choose from these statements which one fits your personality best:

- What happens to me is my own doing.
- Sometimes I feel that I don't have enough control over the direction my life is taking.

- When I make plans, I am almost certain that I can make them work.
- It is not always wise to plan too far ahead because many things turn out to be a matter of good or bad fortune anyhow.

- In my case getting what I want has little or nothing to do with luck.
- Many times, we might just as well decide what to do by flipping a coin.

- Many times, I feel that I have little influence over the things that happen to me.
- It is impossible for me to believe that chance or luck plays an important role in my life.

Figure A5 Distribution Locus of Control

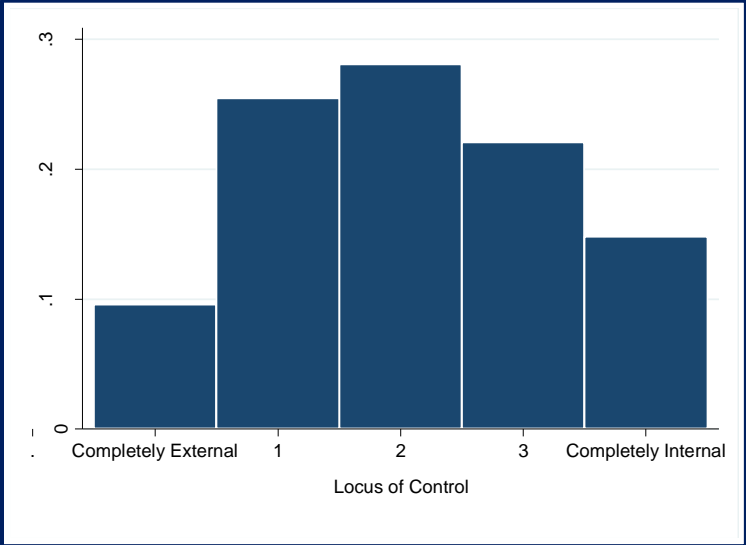


Figure A6 Distribution Age

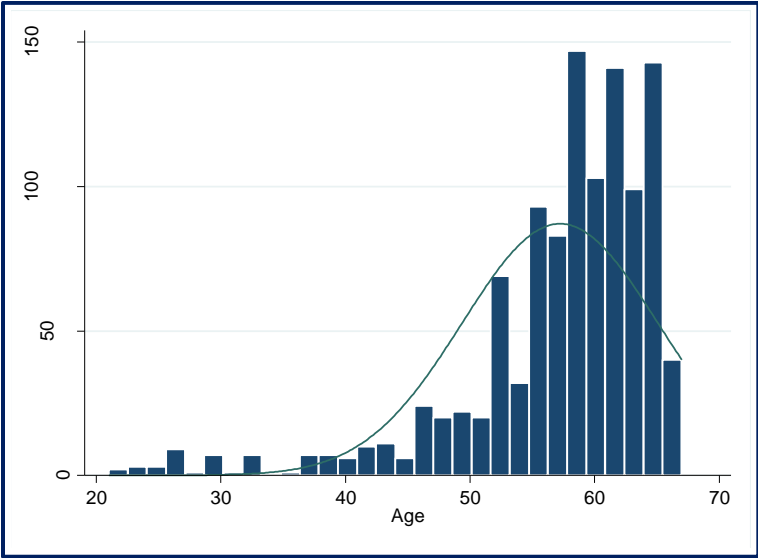


Table A7 *Dummy Risk Aversion on Openness to Demotion*

	(1)	(2)
Openness towards Demotion		
Dummy Risk Aversion (Very Risk Averse)	-0.189** (0.095)	-0.198** (0.096)
Age		0.022*** (0.007)
Gender		0.160 (0.152)
Living with Partner		0.012 (0.098)
Lower Ed. (Intermediate level of education is ref)		-0.111 (0.121)
Higher Ed.		0.019 (0.105)
FTE		-0.004* (0.002)
Salary		0.057 (0.043)
Tenure		0.001 (0.005)
Constant	2.084*** (0.051)	0.414 (0.539)
Observations	600	600
R-squared	0.007	0.039

Standard errors in parentheses
 *** p<0.01, ** p<0.05, * p<0.1

Official Statement of Original Thesis

By signing this statement, I hereby acknowledge the submitted thesis, titled

‘Employee Perspectives and Attitudes towards Demotion’

to be produced independently by me, without external help.

Wherever I paraphrase or cite literally, a reference to the original source (journal, book, report, internet, etc.) is given.

By signing this statement, I explicitly declare that I am aware of the fraud sanctions as stated in the Education and Examination Regulations (EERs) of the SBE.

Robin de Graaf

Management of Learning

Skill MA Thesis: Management of Learning (2016-300-EBS4005)

ID number: I6031444

Maastricht, 24th August, 2017

Signature:

A handwritten signature in blue ink, appearing to be the initials 'RdG' with a vertical line extending downwards from the 'G'.