

PERSONALITY AND LABOR MARKET OUTCOMES IN GHANA

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INTRODUCTION

Companies, whether small or large, would care about the attitudes and personality of their employees and prospective employees. Employees also care about the attitudes of their fellow colleagues at the work place because workers seldom work alone.

Customers care not only about goods and services that they buy but also about the attitudes of employees and managers of firms from which they buy from. Financial institutions, care about the attitudes of people they do business with, especially entities they give loans to. These examples show how important attitudes or behavioral traits are in an economy.

A review of the analysis of labour market outcomes shows “substantial interest in the effect of education on productivity and income” (Udry, 1997), mostly in search of causal returns to education and other cognitive skills. One may ask: what about returns to non-cognitive skills in the labour market of developing countries?

In the context of Ghana, this policy brief discusses the relationship between personality traits and outcomes in the labor market, mainly arguing that employers, educationists and policy makers should take personality serious in their work. This brief forms part of a wider study that investigates the relationship between personality traits measured by the Big Five model and labor market earnings when workers are paid or work for themselves. Also of interest is how personality affects whether a person will be employed or not and the adoption of improved technologies by farmers.

Preliminary results from the study show¹ that personality traits are as important as the number of years spent in formal education in terms of employment in Ghana. There are empirical as well as theoretical studies in economics that highlight the importance of attitudes, preferences, traits or personality. A review by Dohmen (2014), contains

¹ The study is based on a nationally representative panel data for Ghana-The Yale EGC-ISSER Socioeconomic Panel Survey of 5000 households in 2010 and 2014. Even though the data used is observational and not experimental, the estimation methods justifies that the results are not far from causal relationships.

quotes that show that the popular economist-Adam Smith, highlighted many psychological motives that partly determine human behavior.

The 2015 World Development Report by the World Bank Group (WB) has the theme: “Mind, Society, and Behavior” and focused on results from behavioral sciences, including behavioral economics. The quote below from the forward of the report, referring mainly to the spread of the Ebola virus in Africa, summarizes recent interest in the field.

“Recent research has advanced our understanding of the psychological, social, and cultural influences on decision making and human behavior and has demonstrated that they have a significant impact on development outcomes”. (Italics mine).

Some development economists point out how labor is crucial in developing countries. For example Francis Teal pointed out that “while in many developing countries the poor only have their labour that is far from universally true” (Teal 2011). This is certainly true of the Ghanaian economy, which has many labour market problems. Studies on the labour market such as the present one can provide policy makers with needed evidence.

Recent research on the relationship between psychological measures and labour market outcomes shows that even though such investigations are not new, recent advancements are yielding further insights, but most of the studies are from developed economies. Traditional economic thought mainly follows the Walrasian model, which argues that the constraints and incentives facing individuals in all situations entirely determine their behavior, preferences and then the outcomes. As a results the behavioural traits of parties or individuals in a market, exchange or contract, are normally ignored.

One earlier economist- Joseph Schumpeter, gave room for individual traits to determine economic outcomes in terms of employment. A highly cited author, James Heckman and others (2006) have advocated for the use of psychological constructs to help explain labour market processes by arguing that “non-cognitive ability is as important, if not more important, than cognitive ability”.

W.B. Roberts (2009) defines personality traits as “the relatively enduring patterns of thoughts, feelings, and behaviors that reflect the tendency to respond in certain ways under certain circumstances”. The traits are assumed to be stable even though they are not completely fixed (Heckman and Kautz, 2012). The measure of personality adopted in this study is the Big Five factor model which measures the personality traits

extraversion, agreeableness, conscientiousness, emotional instability or neuroticism and Openness based on 44 self-evaluated questions.

The trait **extraversion** involves being enthusiastic, outgoing or preferring to be with other people and assertive rather than being reserved or being quite. **Agreeableness** represents the desire to be of aid to others, trusting, forgiving and being considerate rather than being selfish, rude, cold or fault-finding. **Conscientiousness** captures the ability of individuals to persevere to do a thorough work efficiently, following on plans and being a reliable worker rather than being distracted, disorganized, lazy or careless. **Emotionally unstable** people worry a lot, are moody, tensed, easily upset and prone to being depressed or get nervous rather than being calm. **Openness** or autonomy sums traits like being original and desiring to bring new ideas, being curious about different things and reflecting on them. It also involves deep thinking, active imaginations, being inventive and less likely to desire routine work.

The Ghanaian economy (GDP) has grown on average about 7.6 percent between 2006 and 2014, but slowed in 2015 (GSS, 2015). The majority of the employed, are either self-employed or unpaid household workers, with very small changes over time between 1960 and 2010.

Figure 1: Major sector of employment of Ghanaian age 15 or older by census (1960-2010)

The proportion of Ghanaians working in the informal sector increased from 83.9 percent in the year 2000 (using census data) to 86.2 percent in 2010 (GSS, 2005a and 2013), partly explaining the worsening inequality in Ghana. It is clear from figure 1 that not much has changed in terms of the major sectors of employment by the Ghanaian population since the 1960s.

Ghana's economic growth may fit the description of Fox and Sekkel (2008) about Sub-Saharan African countries with low-income, that "wage and salary job creation has lagged behind growth", even with improved educational outcomes in the country and economic reforms.

Bowles et al (2001) reviewed the literature on wage determination and concluded that traditional human capital and demographic covariates explain not much of the variance in earnings and in most cases about half of the variance of the natural log of earnings or wages is unexplained by standard demographic variables therefore more is needed to understand the sources of these unexplained earnings differences. Heckman and Kautz (2012) called personality traits "soft skills" and have provided evidence to show that, these traits causally determine success in the labour market. There is evidence that personality tests or questions about potential personality differences are used in recruitment procedures by firms. The relationship between earnings and a particular personality traits in general may be ambiguous because different occupations may require different degrees of the trait (Nyhus and Pons, 2005).

APPROACHES AND RESULTS

Three main conceptual theories that link personality traits with labour market outcomes have been identified in the literature (Trzcinski and Holst, 2011). The first concerns identity developed by Akerlof and Kranton (2000), that shows that individuals have self-images or assigned categories by society and experience a reduction in utility when they behave contrary to that image and are more likely to behave as expected. Secondly, the Human Capital Theory as explained by Mueller and Plug (2006), holds that personality traits serve as bundles of productive attributes or characteristics that have value in the labour market just like other attributes of workers in the standard economic methodology. The third theory, principal agent model when there are imperfect information and uncertainties, explains that personality traits serve as signals that indirectly affect productivity by reducing the monitoring cost that are associated with labour contracts (Lee, 2006). Efforts of workers are monitored because it is virtually impossible to specify all the terms and conditions under a labor contract. Different bargaining abilities of individuals might also affect their remuneration (John and Thomsen, 2013).

Preliminary results from regression analysis show that there is no clear statistically significant relation between extraversion and hourly wages in Ghana but there appears to be a negative relation between agreeableness and wages. The strongest results

show that workers who are emotionally unstable receive lower wages. Almost all the papers reviewed agreed with this finding. Workers who are more open to experience are paid more wages other things being equal. This could be because the jobs that pay higher wages desire this trait for normal day to day work. The most difficult finding to explain in this study is the negative relation between conscientiousness and wages. A similar result was reported by Braakmann (2009) for a German sample. It could be that such people toil very hard in low paying jobs.

POLICY AND STRATEGIC INSIGHTS

One recommendation, offered by Bowles et al (2001) is that early training of children on relevant traits should be given more attention. Schooling programs could be developed to impart needed soft skills so as to break a cycle of bad traits running through a family and worsening inequality and persistent poverty. Schooling interventions should also target soft skills in addition to the usual focus on cognitive skills. Heckman and Kautz (2012) have cited empirical evidence that shows that some interventions can influence personality development.

Educational and employment policies in Ghana, including apprenticeship programs, could be adapted to include non-cognitive skills in addition to the cognitive skills which are normally taught. Parents and teachers involved in early training of children should be encouraged to give extra attention to children with traits that are clearly not conducive to group work or work habits. Even though giving more attention to such training would not necessarily change the types of jobs available in the economy. It would certainly shape who gets what job.

The National Employment Policy which was launched on 15th April, 2015 with the objective “to create gainful and decent employment opportunities for the growing labour force”, admitted that recent economic growth in Ghana has not created enough jobs, leading to numerous unemployed youth. One reason for the unemployment situation, which is common knowledge, is the mismatch of skills acquired through formal education and skills required by the job market. The modules developed for skills upgrading should give some attention to the personality development of the students since the targeted ages are low enough to permit changes in their personalities. Making people conscious that their personalities, and potential reflections on how to change them, if desired, may help individuals seeking to improve their labour market outcomes.

Training programs in government ministries, agencies and departments may want to consider an emphasis on the importance of attitudes at the work place.

For example, the inclusion of worker behavior in performance measurements may improve attitudes and improve productivity.

Recruitment procedures in Ghana could also incorporate the use of these measures within organizations. This will increase how different workers fit into their roles in an organization. Personality differences are as important as schooling certificates in the recruitment process and should not be ignored because of difficulties in measurements.

Overall this, this research contributes to the broader emphasis on information provision. People are more likely to adapt their behavior when they are well informed about causal processes. This may lead to individuals and organizations better linking objectives to outcomes than relying on fixed behaviors or untested assumptions about impacts.

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